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FEDERAL FINANCIAL MANAGEMENT STATUS REPORT AND 5-YEAR PLAN

APRIL 1992

OFFICE OF MANAGEMENT AND BUDGET

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WASHINGTON, D.C. 20503

THE DIRECTOR

April 13, 1992

Honorable Thomas S. Foley
Speaker of the House
of Representatives
Washington, D.C. 20515

Dear Mr. Speaker:

The Office of Management and Budget (OMB) is pleased to submit the financial management status report and government-wide 5-year financial management plan, as required by the Chief Financial Officers (CFOs) Act of 1990.

The status report analyzes Federal financial management in terms of eight critical aspects of financial performance. The report concludes that, while significant improvements have been achieved over the past few years, Federal performance is still not at the level it needs to be.

The 5-year plan outlines how OMB and Federal agencies will use the tools provided by the CFOs Act to improve financial management. The agenda is ambitious, and meeting it will require continuing support from the Congress, the Executive branch agencies, and the General Accounting Office, among others. With this support, OMB believes that the end of the 5-year period will see major gains in the accountability, efficiency, and effectiveness of Federal financial management.

Respectfully submitted,

Richard Darman
Director

Enclosure

IDENTICAL LETTERS SENT TO HONORABLE DAN QUAYLE, HONORABLE JOHN GLENN, HONORABLE WILLIAM V. ROTH, JR., HONORABLE JOHN CONYERS, JR., HONORABLE FRANK HORTON

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EXECUTIVE SUMMARY

Enactment of the Chief Financial Officers (CFOs) Act of 1990 reflected a general consensus that the Executive branch must, as a matter of priority, improve its financial management. For many decades, Federal financial management has suffered from insufficient attention; it has not been a vital part of Federal decision-making and management. This has tended to produce information on the operations and condition of government programs that has been incomplete, unreliable, untimely, and inconsistent.

The CFOs Act mandates improved financial management, in part, by assigning clearer responsibility for leadership to senior officials, and by requiring (i) new financial organizations, (ii) enhanced systems, and (iii) audited financial reporting.

Good financial management provides for:

- ***Accountability.*** Taxpayers, agency personnel, and the Congress should be fully informed—in terms they can readily understand—about what the nation's tax dollars are actually being spent for, and how Federal assets are being protected.

- ***Efficiency and Effectiveness.*** Individuals, contractors, grantees, and State and local governments, who have financial dealings with the Federal Government, should be assured of efficient and effective service.

- ***Better Decision-Making.*** Agency heads, program managers, and the Congress should be provided with timely reports linking financial results and program data—so that financial and program results of policy and program decisions can be identified, tracked and forecast more accurately.

What follows is the Office of Management and Budget's first report to the Congress under the CFOs Act. The report contains an assessment of the status of Federal financial management and a government-wide 5-year financial management improvement plan.

Both the status report and the 5-year plan focus on eight critical aspects of financial management performance:

- — Financial management organization
- — Financial management personnel
- — Accounting standards
- — Financial systems
- — Internal controls
- — Asset management
- — Communication with State and local governments, private contractors, and grantees
- — Audited financial reporting

OMB's overall strategy for achieving financial management improvements includes:

- ***An integrated approach to planning and reporting.*** This 5-year plan presents a general road map. OMB will instruct agencies to develop detailed agency plans based on this road map, and present, in their 1992 reports, the status of agency financial management in relation to these plans. The data in these reports will be a principal input to OMB's 1993 financial management status report and government-wide 5-year financial management plan.

- ***Availability of financial reporting as part of the budget and appropriations process.*** OMB and the agencies will move aggressively to make financial and program information for the year preceding the Budget Year available to the budget and appropriations processes. Starting with selected agencies, the goal will be to make prior year audited financial statements part of the appropriations process. The Administration's goal is that all agencies and programs covered by the CFOs Act are in a position to do this by FY 1994.

- ***Simultaneous progress in the eight areas of financial management.*** While action will proceed simultaneously in all eight areas, OMB will place special emphasis—during the early years of plan implementation—on instilling fiscal accountability within Federal agencies; ensuring adequate performance of basic financial functions; making financial reporting timely, accurate and useful; and developing performance measures for program, financial, and financial management performance.

The most important improvements in financial management must occur at the agency level. Clear and visible responsibility must be placed squarely on senior agency management. OMB and senior agency officials must focus principal attention on the *outcomes* of financial management performance, and on interagency comparisons that are based on a common understanding of when "good" financial management is attained.

A summary of current status and future plans for each critical aspect of financial management follows.

FINANCIAL MANAGEMENT ORGANIZATION

- Prior to enactment of the CFOs Act, there was no formal, government-wide policy-level financial management structure. The Act provided for 23 statutory CFOs, and a Deputy Director for Management and Controller at OMB.

- The organizational framework required by the CFOs Act is now generally in place.
  - — OMB has completed its internal reorganization, and has approved 21 of 23 agency CFO organizational proposals.
  - — Fourteen CFOs, 15 Deputy CFOs, and OMB's financial management officials have been appointed.

- The President's 1993 Budget requests $2.2 billion for financial management improvements, $83 million more than enacted in 1992.

- OMB will initiate in 1992 a program of functional analysis, to determine the effectiveness of this CFO structure and suggest improvements. It will also, during the period of the 5-year plan, ensure financial management policy issues are addressed and needed resources provided.

FINANCIAL MANAGEMENT PERSONNEL

- Well over half the agency CFOs report a significant need to strengthen staff capabilities in the areas of financial systems, financial operations, and financial policy.

- A variety of training efforts have been initiated since 1990, and the Office of Personnel Management has updated standards for government accountants. Enactment of the Federal Employees Pay Comparability Act of 1991 also helps. But, these efforts have not adequately focused on attracting and retaining the most qualified people to financial management.

- In 1992, OMB will collaborate with the Office of Personnel Management and the agencies in evaluating, and where appropriate implementing, the Association of Government Accountants' "Blueprint for Attracting and Retaining Financial Management Personnel."

FINANCIAL ACCOUNTING STANDARDS

- The Federal Government is the only major entity in the United States that is operating without generally accepted accounting standards. The result is incomplete and inconsistent financial reporting.

- The Federal Accounting Standards Advisory Board (FASAB) was established in October 1990 to propose accounting standards for consideration by the Secretary of the Treasury, the Director of OMB, and the Comptroller General.

- In 1991, FASAB recommended, and the Director of OMB and the Comptroller General issued, interim accounting standards. In addition, FASAB has distributed for public comment an exposure draft containing nine accounting standards involving financial resources and funded liabilities.

- Over the next five years, FASAB will recommend a comprehensive set of accounting standards.

  — In 1992 and 1993, exposure drafts will be issued on accounting standards relating to inventories and other materials held by government entities; loans and loan guarantees; unfunded liabilities; revenue recognition; and physical assets.

  — During the 1992-96 period, FASAB will complete recommended standards in these areas, and address conceptual issues involving consolidation of financial statements, disclosure, and definitions of entities.

FINANCIAL SYSTEMS

- The Federal Government has made progress (since the mid-1980s) in eliminating duplicative financial systems. It has:

  — Fostered cross-servicing arrangements (e.g., more than 50 external clients now rely on the General Services Administration for accounting, payroll, and other financial services).

  — Established the General Services Administration's "off-the-shelf" financial software schedule (agencies can now avoid duplicative systems development efforts by acquiring prepackaged financial software).

  — Established government-wide policies and standards, and begun the integration of central agency financial data bases.

  — Sought increased funding ($659 million in FY 1993) to upgrade financial systems. The President's 1992 Budget requested $647 million; $628 million was appropriated by Congress.

- Many agency financial systems, however, must be upgraded to meet basic government-wide requirements, and CFOs Act requirements that the systems provide for information useful to decision-makers and systematic measurement of performance.

  -- Thirteen of the 23 CFOs Act agencies have financial systems that are included on OMB's High Risk List.

— Only 11 of 23 agencies have automated financial systems that fully integrate budget and accounting data; only 12 use automated systems to monitor budget execution in relation to actual expenditures.

— Only 6 of the 23 agencies have fully implemented the Standard General Ledger at the transaction level.

- During the next five years, the Administration will:

  — Expand cross-servicing opportunities through designation of existing systems to meet common needs.

  — Improve the range and quality of "off-the-shelf" financial software available to agencies.

  — Strengthen systems functional standards and establish a data dictionary for program and financial information.

  — Integrate OMB and Treasury central agency financial data bases by 1994, and use this data base to develop a government-wide financial information architecture by 1996.

  — Revise in 1992 OMB's government-wide financial systems policies to require: agency consistency with these policies; increased management control over financial systems development; greater continuity in large systems development projects; and priority attention to the correction of internal control weaknesses within financial systems.

  — Strengthen OMB monitoring and oversight of agency plans and performance, through annual systems hearings (all CFOs Act agencies) and "hands-on" reviews (at least five agencies).

INTERNAL CONTROLS

- Federal agencies are paying more attention to internal controls, largely because of OMB's High Risk List and joint OMB/agency SWAT and review teams. The Administration:

  — Required in 1991 that audited financial statements include auditor testing of internal controls, assurance of whether internal control objectives were being met, and disclosure of discrepancies between internal control reports and the auditor's findings.

  — Requested increased appropriations for Inspectors General (from $628.8 million in FY 1990 to $849.2 million in FY 1993).

- Policy-level attention to internal controls and the pace and effectiveness of corrective actions remain, however, inadequate in some agencies. There is also inconsistency in agency internal control procedures and reporting. Of particular concern is the lack of compliance with selected CFOs Act requirements by most government corporations.

- In 1992, OMB will revise its government-wide internal control and audit followup policies, and require that annual agency CFO reports compare internal control weaknesses disclosed through audits of financial statements with internal control weaknesses disclosed through agency management processes. OMB will also urge government corporation compliance with the CFOs Act.

- Throughout the period of the 5-year plan, OMB will continue to use the High Risk List, SWAT teams, and review teams, to expedite correction of the Government's most serious internal control problems.

ASSET MANAGEMENT

- The Federal Government has made progress in its management of financial assets.
  - The first significant decrease in delinquent non-tax receivables (since OMB began keeping government-wide data in the early 1980s) occurred in 1991.
  - The Federal Credit Reform Act of 1990 required budgeting for the subsidies inherent in direct and guaranteed loans.
  - The Cash Management Improvement Act of 1990 established systematic and fair rules for cash transfers between Federal and State governments.
  - The Federal Debt Collection Procedures Act of 1990 provided the Department of Justice with enhanced debt litigation capability.
  - The Federal Credit Policy Working Group instituted in 1991 quarterly "Early Warning Reports" to show significant trends in the performance of the portfolios of the five major credit agencies.
- Major areas of concern remain:
  - Terminations of guaranteed loans due to defaults increased from $11.9 billion in 1990 to $13.9 billion in 1991.
  - Delinquent Internal Revenue Service accounts receivable rose 9.5 percent over 1990 to $67 billion at the end of 1991.
  - Insufficient government-wide attention has been given to property, plant, and equipment (valued at $540 billion) and inventories (valued at $261 billion).
- The Administration has proposed a Federal Credit and Debt Management Act, to mandate, among other things, use of standard agreements with, and improved information from, private sector lenders (guaranteed by the Federal Government).
- The Administration will seek in 1992 to:
  - Establish and monitor performance targets for IRS management of its accounts receivable.
  - Move toward a modernized payroll tax system.
  - Develop a long-term plan to improve government-wide management of its property, plant, and equipment.
- Over the period of the 5-year plan, OMB will seek to:
  - Enhance agency credit management capacities. (Institution of functional standards for credit systems will support this objective.)
  - Increase the use of Electronic Benefit Transfer (EBT) payment mechanisms. (Tests are currently underway in six States.)

COMMUNICATION WITH STATE AND LOCAL GOVERNMENTS, PRIVATE CONTRACTORS, AND GRANTEES

- In 1992, Federal grants to State and local governments for payments to individuals are estimated at $115 billion. Other Federal grants are estimated at $67 billion. Federal spending through contracts in 1992 is estimated at almost $200 billion.
- The Administration:
  - Issued OMB Circular A–133 (in 1990) and a companion Compliance Supplement (in 1991) establishing audit requirements for colleges, universities, and non-profit organizations receiving Federal grants.
  - Revised OMB Circular A–21 (in 1991) to curb abuses in the way educational institutions charge indirect costs to the Federal Government.
  - Re-established the Cost Accounting Standards Board (CASB) (in 1990) to achieve uniformity and consistency in the cost accounting practices governing contracts with the Federal Government.
- In 1992 and 1993, OMB will revise its cost principles for grants to State and local governments, colleges, universities, and non-profit organizations: to define indirect and direct costs with greater precision, provide for consistent treatment, and ensure that Federal interests are protected.
- Throughout the period of this 5-year plan, CASB will:
  - Provide for greater uniformity in the costing methods employed by Federal contractors.
  - Provide improved methodologies for recognition and validation of contractor pension costs.
  - Define the appropriate base to be used in depreciating capital assets acquired by government contractors.
  - Require consistency in, and greater disclosure of, cost accounting for colleges and universities.

AUDITED FINANCIAL REPORTING

- Financial reporting on the operations and condition of Federal programs has for decades suffered from inattention and disuse.
  - The Federal Government has, until recently, not been able to determine its unobligated balances in a timely and reliable fashion.
  - Government-wide financial data on assets, liabilities, revenues, expenditures, and changes in cash flows have been inconsistent, incomplete, and inaccurate.
  - Program costs are not always allocated to the programs with which they are associated.
- Since enactment of the CFOs Act, OMB has:
  - Issued government-wide policy on the form and content of financial statements and on audits of financial statements.
  - Identified groupings of revolving funds, trust funds, and commercial activities for which financial statements will be prepared.

— Initiated development of additional financial and program performance measures through the establishment of 14 task groups that are identifying common measures for 14 major functional areas of Federal operations.

- Five agencies have produced agency-wide financial statements on their 1990 activity and condition; three of these statements were independently audited.
- Seven pilot agencies will produce agency-wide audited financial statements on their 1991 activity; and audited financial statements will be produced covering 75 organizations and activities having trust funds, revolving funds, and commercial activities.
- OMB plans full compliance with the CFOs Act for 1992 activity. Ten agencies will produce agency-wide audited financial statements; and audited financial statements will be produced covering all 138 organizations and activities having trust funds, revolving funds, and commercial activities.
- OMB will in 1992 and 1993:
  - Issue refined guidance on the form and content of Federal financial and program reporting.
  - Work with the agencies to ensure proper allocation of program costs to the programs incurring those costs.
- Over the period of the 5-year plan, OMB and the agencies will:
  - Develop improved program, financial management and financial performance measures, comparable across like programs.
  - Improve the usefulness, reliability and timeliness of financial reporting to program managers, agency heads and Congress, particularly as such reporting relates to the budget formulation and appropriations processes.
  - Increasingly integrate budget and financial information and reporting.

GENERAL ABBREVIATIONS

AGA	Association of Government Accountants
CAS	Cost Accounting Standards
CASB	Cost Accounting Standards Board
CFO	Chief Financial Officer
EBT	Electronic Benefit Transfer
FASAB	Federal Accounting Standards Advisory Board
FMFIA	Federal Managers' Financial Integrity Act
GAO	General Accounting Office
IRS	Internal Revenue Service
JFMIP	Joint Financial Management Improvement Program
OECD	Organization for Economic Cooperation and Development
OFFM	Office of Federal Financial Management
OFPP	Office of Federal Procurement Policy
OMB	Office of Management and Budget
PCIE	President's Council on Integrity and Efficiency
SGL	Standard General Ledger

CFOs ACT AGENCIES

USDA	Department of Agriculture
Commerce	Department of Commerce
DOD	Department of Defense
Education	Department of Education
DOE	Department of Energy
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
DOI	Department of the Interior
DOJ	Department of Justice
DOL	Department of Labor
State	Department of State
DOT	Department of Transportation
Treasury	Department of the Treasury
VA	Department of Veterans Affairs
AID	Agency for International Development
EPA	Environmental Protection Agency
FEMA	Federal Emergency Management Agency
GSA	General Services Administration
NASA	National Aeronautics and Space Administration
NSF	National Science Foundation
NRC	Nuclear Regulatory Commission
OPM	Office of Personnel Management
SBA	Small Business Administration

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I. INTRODUCTION

The Chief Financial Officers (CFOs) Act of 1990 (Section 301) requires that the Director of the Office of Management and Budget (OMB) annually submit to the Congress a financial management status report and a government-wide 5-year financial management plan. This document represents OMB's first submission in compliance with the CFOs Act.

Generally, financial management has suffered from insufficient attention. For many decades, financial management has not been viewed as an integral, vital part of the Federal decision-making and management processes.

Changing this situation requires explicit recognition that Federal financial management should not exist merely to meet traditional accounting needs. Its broader purpose is to meet the needs of both decision-makers and those with whom decision-makers must communicate.

This document provides a status report on Federal financial management and describes plans to improve Federal financial management consistent with the requirements of the CFOs Act. Federal financial management must provide for:

— ***Accountability.*** Taxpayers, agency personnel, and the Congress should be fully informed—in terms they can readily understand—about what the nation's tax dollars are actually being spent for, and how Federal assets are being protected.

— ***Efficiency and Effectiveness.*** Individuals, firms, and State and local governments, who have financial dealings with the Federal Government, should be assured of efficient and effective service.

— ***Better Decision-Making.*** Agency heads, program managers, and the Congress should be provided with timely reports linking financial results and program data—so that financial and program results of policy and program decisions can be identified, tracked and forecast more accurately.

"Good" financial management means more than avoiding adverse audit findings and public scandal. "Good" financial management:

— Optimizes the flow of resources to the central programmatic missions of an agency, with administrative support in proper proportion to programmatic activities.

— Consistently conforms to legal and administrative requirements, and to financial measures, approaches, and standards that are promulgated separately from agency management.

— Consistently performs basic financial functions—such as accounting, transactions processing, and asset management—at an acceptable level.

— Contributes information that is objectively important to the progress, performance, and success of the agency.

In analyzing what will be required to make "good" financial management a reality, both the status report and the plan focus on eight critical aspects of financial management performance: financial management organization; financial management personnel; accounting standards; financial systems; internal controls; asset management; communication with the financial officers of State

and local governments, private contractors, and grantees; and audited financial reporting (including both financial and performance information).

Despite a large number of improvement projects undertaken over the past years, performance is not what it needs to be in any of these eight areas. Enactment of the CFOs Act, however, has provided OMB and the agencies with essential tools for changing this situation. The 5-year plan details a government-wide program for using those tools to improve Federal financial management.

This government-wide program assumes that the Administration and the Congress will collaborate in providing the modest investments necessary to bring about fundamental change in Federal financial management, and in ensuring that financial management remains a priority government-wide. OMB believes that achievement of its plan would bring benefits in terms of both enhanced government credibility and improved government performance. This will clearly, however, be a monumental endeavor.

Status Report

The status report is based on:

- The results of an OMB data request to the 23 agencies and the 33 government corporations covered by the CFOs Act;
- Information available from on-going OMB activities in support of CFOs Act implementation; and
- Agency reports routinely made to OMB for purposes other than compliance with the CFOs Act. These routine agency reports include submissions under the Federal Managers' Financial Integrity Act (FMFIA), input to the OMB reports to the Congress required by the Prompt Payment Act and the Debt Collection Act, and agency-completed Standard Forms 220-9, Accounts and Loans Receivable Due from the Public, as of September 30, 1990 and September 30, 1991.

5-Year Plan

The 5-year plan presents the Administration's strategy, over the next 5 years, for strengthening financial management and demonstrating that sound financial management fosters more efficient and effective government. Within this context, the plan is designed to (i) meet the requirements of the CFOs Act; (ii) build on the strengths and address the weaknesses discussed in the status report; and (iii) continue current initiatives, particularly those undertaken as part of OMB's Five Point Program for Financial Management. (OMB's Five Point Program, initiated in the spring of 1990, targeted improvements in Federal accounting standards; systems functional and information standards; agency financial systems; central agency data bases; and audited financial statements.)

Process for Preparation of Future Status Report and 5-Year Plan Submissions

The CFOs Act provides a structure for strengthening Federal financial management. The 5-year financial management plan presented herein provides a road map for making progress in the period 1992 through 1996.

Based on this road map, OMB will instruct agency CFOs to develop detailed agency 5-year financial management plans. These plans will reflect the agencies' commitment to carrying out their responsibilities under this government-wide 5-year financial management plan.

OMB will further instruct agency CFOs to present, in their annual reports, the status of agency financial management in relation to their 5-year plans. The data presented in the CFO annual reports will constitute a principal basis for OMB's January 1993 status report and 5-year plan.

This integrated approach to Federal financial management planning and reporting will continue in subsequent years, when institutionalization will enable both streamlining of the process and refinement of the targets and data.

II. FINANCIAL MANAGEMENT STATUS REPORT

Section 301 of the CFOs Act requires that OMB's financial management status report include:

- A description and analysis of the status of financial management in the Executive branch;
- A summary of the most recently completed financial statements of Federal agencies and government corporations prepared in accordance with the CFOs Act;
- A summary of the most recently completed financial statement audit reports prepared in compliance with the CFOs Act by Federal agencies and government corporations; and
- A summary of reports on internal accounting and administrative controls submitted to the President and the Congress under FMFIA.

This status report is organized into three sections that correspond to the first statutory reporting requirement, a combination of the second and third statutory reporting requirements, and the fourth statutory reporting requirement.

A. DESCRIPTION AND ANALYSIS OF THE STATUS OF FINANCIAL MANAGEMENT IN THE EXECUTIVE BRANCH

Enactment of the CFOs Act reflected a general consensus that the Executive branch must, as a matter of priority, improve its financial management performance. Consensus on this point has been reached as the result of continuing congressional, General Accounting Office (GAO), and Inspector General reports that stress the vulnerability of Federal funds to waste, fraud, and mismanagement.

In attempting to define this situation in a manner that enables useful action, OMB has identified eight critical aspects of financial management performance: financial management organization; financial management personnel; accounting standards; financial systems; internal controls; asset management; communication with the financial officers of State and local governments, private contractors, and grantees; and audited financial reporting (including both financial and performance information).

The first three of these areas—financial management organization, financial management personnel, and accounting standards—are fundamental. Strong financial performance cannot be obtained without sound financial management organizational structures, well-qualified financial management personnel, and accounting standards that ensure reliable and consistent financial information.

The next four areas—financial systems, internal controls, asset management, and communication with financial officials of State and local governments, private contractors, and grantees—are essential to ensuring that financial management functions are carried out efficiently, with integrity, and in a fashion that safeguards Federal resources.

The eighth area, audited financial reporting, provides the foundation for audited financial statements. Such reporting serves four major purposes: it provides insight into the status of the seven areas of financial management previously listed; it instills discipline and integrity in the financial management process; it drives improvements required in financial systems; and it links

financial and performance information in timely, regular and accurate ways, providing decision-makers with reliable and useful information.

1. Status of Financial Management Organization

Until the CFOs Act was signed into law on November 15, 1990, financial management organizational issues tended to be addressed on an *ad hoc*, and not always coordinated, basis. The CFOs Act establishes a comprehensive organizational framework:

- The Presidentially-appointed, Senate-confirmed positions of Deputy Director for Management and Controller and an Office of Federal Financial Management (OFFM) are established in OMB. OMB's Deputy Director for Management is specifically designated as "the chief official responsible for financial management in the United States Government."

- In 16 of the 23 agencies covered by the CFOs Act, the positions of Presidentially-appointed/Senate-confirmed CFOs are established. Career Senior Executive Service CFOs are established in the other seven agencies. In all 23 agencies, career Senior Executive Service Deputy CFOs are established.

- A Chief Financial Officer Council—consisting of the Deputy Director for Management, the Controller, the Fiscal Assistant Secretary of Treasury, and the 23 agency CFOs—is established.

- Agency heads are required to formulate, and submit for OMB approval, organizational proposals to ensure compliance with the CFOs Act.

As detailed below, significant progress has been made in implementing this organizational framework.

Progress on OMB Reorganization. The President nominated a Deputy Director for Management and a Controller in August 1991. These officials were confirmed by the Senate, and were sworn into office on November 26, 1991, and December 2, 1991, respectively.

In August 1991, OMB reorganized its Financial Management Division as OFFM. Key aspects of this reorganization included: (i) establishment of a separate branch to address financial systems policies and problems; and (ii) expanded responsibilities in the areas of financial management organization, asset management, and accounting, auditing, and financial reporting policies and practices.

Progress on Agency Organizational Proposals. On February 27, 1991, OMB provided the CFOs Act agencies with "Guidance for Preparing Organizational Plans Required by the Chief Financial Officers Act of 1990." This guidance emphasized that all CFO organizations must have certain critical financial management authorities and responsibilities. The guidance did not, however, constrain agency heads from including additional authorities and responsibilities within the CFO organization.

As the table below shows, all 23 of the agencies covered by the CFOs Act have submitted the required organizational proposals, and twenty-one of these proposals have been approved by OMB. Approval of the two remaining organizational proposals (for the Departments of Agriculture and Justice) awaits completion of ongoing OMB analysis. The table below also describes the functions included in CFO organizations for the 21 organizational proposals that have been approved by OMB.

Status of CFO Organizations

Agency	Date Plan Submitted	Date Plan Approved	Functions Reporting Directly to CFO
USDA	1/16/92	**	
Commerce	4/15/91	5/24/91	B, F, I, P, PR, G
DOD	4/10/91	5/24/91	B, F, S
Education	5/30/91	7/01/91	B, F, S
DOE	4/02/91	5/24/91	B, F, S
HHS	4/12/91	5/24/91	B, F, I, PR, G
HUD	4/17/91	6/19/91	*
DOI	7/08/91	8/20/91	B, F, I, P, PR, G
DOJ	10/30/91	**	
DOL	4/15/91	6/21/91	B, F, S
State	5/17/91	7/17/91	B, F, S
DOT	4/17/91	5/24/91	F, I, P, PR, G
Treasury	4/09/91	7/18/91	B, F, I, P, PR, G
VA	6/21/91	9/09/91	B, F, I
AID	5/17/91	8/19/91	B, F, I, P, PR
EPA	4/02/91	5/24/91	B, F, I, P, PR, G
FEMA	8/06/91	9/09/91	B, F, S
GSA	4/10/91	5/24/91	B, F, S
NASA	3/29/91	5/24/91	B, F, S
NSF	3/28/91	5/24/91	B, F, P, G
NRC	4/12/91	5/24/91	B, F, I
OPM	4/01/91	5/24/91	B, F, S
SBA	8/01/91	9/24/91	B, F, I, P, PR, G

* The HUD CFO organization was authorized by the HUD Reform Act of 1989 and thus pre-dates enactment of the CFOs Act. It exercises financial policy and oversight functions for the entire Department; financial operations are carried out by Department components, which have a dotted line relationship with the CFO.

** Approval awaiting completion of ongoing OMB analysis.

KEY:

B—BUDGET

F—FINANCE

I—INFORMATION RESOURCES MANAGEMENT (including financial systems)

P—PERSONNEL

PR—PROCUREMENT

G—GRANTS MANAGEMENT

S—FINANCIAL SYSTEMS ONLY

Progress on CFO Appointments. To date, 14 CFOs and 15 Deputy CFOs have been appointed in the CFOs Act agencies. In 12 of these agencies, both the CFO and the Deputy CFO have been appointed.

Status of CFO and Deputy CFO Appointments

Agency	CFO in Place as of 4/7/92	Deputy CFO in Place as of 4/7/92
USDA	No	No
Commerce	Yes	Yes
DOD	Yes	Yes
Education	No	Yes
DOE	No	No
HHS	Yes	Yes
HUD	Yes	Yes
DOI	Yes	Yes
DOJ	No	No
DOL	No	No
State	Yes	Yes
DOT	No	No
Treasury	Yes	Yes
VA	Yes	Yes
AID	Yes	Yes
EPA	No	Yes
FEMA	Yes	No
GSA	No	No
NASA	No	Yes
NSF	Yes	Yes
NRC	Yes	Yes
OPM	Yes	No
SBA	Yes	Yes

Progress on Chief Financial Officers Council. In November 1987, OMB administratively established a CFO Council to develop a coordinated and participative approach to solving the Government's financial management problems. The Council has been effective in: (i) developing reporting formats for audited financial statements; (ii) coordinating Administration support for a provision in the National Defense Authorization Act of 1990 which limited all agencies' use of expired and merged accounts; (iii) coordinating Administration support for the CFOs Act; (iv) creating a common methodology for agencies to use in meeting Internal Revenue Service (IRS) regulations for reporting and withholding employee travel advances; and (v) proposing improvements to Federal disbursement mechanisms.

OMB issued a charter establishing the statutory CFO Council on February 4, 1992. The Council's first meeting was held February 18. The Council will focus on policy-level financial management issues, and will provide direction to the work of a subordinate group (Council Operations Group), whose membership will largely consist of the Deputy CFOs. The Council Operations Group will ensure coordinated implementation of Council-developed policies, undertake projects requiring government-wide coordination and expertise, and report the results of its work to the CFO Council.

Overall Status of Financial Management Organization. To a significant extent, the organizational framework required by the CFOs Act has been put in place. It is far too early, however, to assess how effective this organizational framework will be in practice. Most of the CFOs Act agencies are still in the process of issuing the directives and orders needed to implement their approved organizational proposals. Even when those directives and orders are issued, it is not clear that they alone will be sufficient to change ingrained agency financial management practices.

Additional resources have been requested for OMB's Office of Federal Financial Management (OFFM) and agency CFO organizations in FY 1993. Congress, however, did not provide the President's request for additional resources in OMB, and in selected agencies, in FY 1992.

In the 5-year plan component of this submission, OMB outlines steps that will be taken to resolve these organizational effectiveness uncertainties.

2. Status of Financial Management Personnel

Financial management personnel is a second area where improvement efforts have traditionally lacked a strong government-wide focus. Under the CFOs Act, however, OMB's Deputy Director for Management is responsible for:

- Providing advice to agencies regarding the qualifications, recruitment, performance, and retention of financial management personnel; and
- Assessing the overall adequacy of the professional qualifications and capabilities of financial management staffs throughout the Government, and making recommendations on ways to correct problems that impair the capacity of those staffs.

The CFOs Act also requires that agency CFOs direct, manage, and provide policy guidance and oversight of agency financial personnel, including the recruitment, selection, and training of those personnel.

Actions to Strengthen Financial Management Personnel. Over the past several years, a number of actions have been taken to strengthen the capabilities of Federal financial management personnel. For example:

- In 1990, the Joint Financial Management Improvement Program (JFMIP) published the results of a study on continuing professional education needs of GS–510 Accountants. (The JFMIP was established in 1948 to help improve financial management practices and policies throughout the Government. It is led by four Principals: the Secretary of the Treasury; the Director of OMB; the Director of the Office of Personnel Management; and the Comptroller General.)
- In 1991, the GAO provided financial audit training to over 600 Inspector General personnel.
- In 1991, the JFMIP published a compendium of courses available to meet financial management training needs; and, in 1992, the JFMIP issued an update of the compendium.
- In 1991, the Office of Personnel Management updated the classification and qualifications standards for positions in the accounting series, in order to make the standards more understandable.
- In 1991, enactment of the Federal Employees Pay Comparability Act provided for alleviation of key problems in recruiting and retaining Federal personnel.
- In 1991, Federal Inspectors General established the Inspector General Auditor Training Institute to provide ongoing entry-level auditor training, as well as specialized training in audits of financial statements required by the CFOs Act.
- In 1991, the Office of Personnel Management, after consultation with the CFO Council, started highlighting financial personnel recruitment in its job fairs.

— In 1992, Treasury's Federal Credit Management Training Institute started offering basic financial management and accounting courses, in order to help meet credit management training needs common to all Federal credit agencies.

— In 1992, the Association of Government Accountants (AGA) will publish "A Blueprint for Attracting and Retaining Financial Management Personnel." This Blueprint results from an intensive, multi-year study of the issues associated with attracting and retaining Federal financial management personnel.

In addition, during this period, the JFMIP, the AGA, and the CFO Council have held a wide variety of training workshops for Federal financial management personnel.

Based on the responses to OMB's data request in preparation for this status report, it is clear that agency actions to strengthen the quality of financial management personnel have varied substantially. Some agencies are just beginning to develop plans, while others have mature training programs. Examples of agency best practices in the training area include:

— Systematic determination of training needs, using a random sample survey of 30,000 financial management personnel (Department of Defense);

— Formal agency guidance on budget set-asides for financial management training (Department of the Interior);

— Creation of a new Foreign Service Institute program on financial management for embassy and other foreign-assigned personnel (Department of State); and

— Establishment of a core set of financial management training requirements (Departments of Commerce and Labor).

Overall Status of Financial Management Personnel. Despite the improvement efforts outlined above, CFO Council members consistently pinpoint personnel as a principal area of concern for them.

In the OMB data request in preparation for this report, CFOs Act agencies were asked to rank—as high, medium, or low—the training and career development needs of agency financial management staff reporting both directly and indirectly to the CFO. The table below presents the CFO responses. In summary:

— In the area of financial policy, 57 percent of the respondents ranked training and career development needs as high; 32 percent ranked the needs as medium; and 11 percent ranked the needs as low.

— In the area of financial systems, 64 percent of the respondents ranked training and career development needs as high; 27 percent ranked the needs as medium; and 9 percent ranked the needs as low.

— In the area of financial operations, 60 percent of the respondents ranked training and career development needs as high; 31 percent ranked the needs as medium; and 9 percent ranked the needs as low.

Agencies' Assessment of Their Staff Training Needs

Agency	CFO Organization						Other Financial Management					
	Washington, DC			Other Locations			Washington, DC			Other Locations		
	Policy	Systems	Operations	Policy	Systems	Operations	Policy	Systems	Operations	Policy	Systems	Operations
USDA	*	*	*	*	*	*	H	M/H	M	M	M	H
Commerce	H	H	H	n/a	n/a	n/a	H	H	H	H	H	H
DOD	H	H	H	M	M	M	M	M	M	L	L	L
Education	H	H	H	n/a	n/a	n/a	H	H	H	H	H	H
DOE	H	H	H	H	H	H	M	M	M	M	M	M
HHS	H	H	M	n/a	n/a	M	M	H	M	M	M	M
HUD	L	L	L	n/a	n/a	n/a	M	H	H	M	H	H
DOI	**	**	**	**	**	**	**	**	**	**	**	**
DOJ	H	M	M	n/a	n/a	n/a	M	M	M	M	M	H
DOL	M	M	M	n/a	n/a	n/a	H	H	M	L	M	M
State	H	H	H	H	H	H	H	H	H	H	H	H
DOT	H	H	H	n/a	H	n/a	H	M	H	M	M	H
Treasury	H	H	H	H	H	H	H	H	H	H	H	H
VA	M	M	M	H	H	H	H	H	H	H	H	M
AID	M	H	H	n/a	n/a	n/a	M	M	M	H	H	H
EPA	L	L	L	L	L	L	L	L	L	L	L	L
FEMA	H	H	H	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
GSA	H	H	M	n/a	n/a	n/a	M	H	H	M	H	H
NASA	H	H	H	n/a	n/a	n/a	n/a	n/a	n/a	H	H	H
NSF	M	M	M	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
NRC	H	H	H	H	H	H	H	H	H	H	H	H
OPM	H	H	H	n/a	n/a	n/a	H	H	H	H	H	H
SBA	M	M	M	n/a	n/a	n/a	M	M	M	n/a	n/a	n/a
	H=14	H=14	H=12	H=5	H=6	H=5	H=10	H=11	H=10	H=9	H=11	H=13
	M=5	M=5	M=7	M=1	M=1	M=2	M=8	M=7	M=8	M=7	M=5	M=4
	L=2	L=2	L=2	L=1	L=1	L=1	L=1	L=1	L=1	L=3	L=2	L=2

CFO Operations include preparation of financial statements

H means high training need.
M means medium training need.
L means low training need.
n/a means not applicable.
* means not provided.
** means not provided in aggregate form.

OMB's data request included another possible indicator of staffing/training needs. The CFOs Act agencies were asked to identify the percentage of their financial policy support services, systems, and operations workload being handled by contractors rather than in-house staff. As the table below details, contractors are on average handling 2 percent of the policy support services workload, 27 percent of the systems workload, and 9 percent of the operations workload. Of particular concern in this respect are five agencies (the Departments of Health and Human Services, Labor, and State; the Agency for International Development; and the Environmental Protection Agency) where 50 percent or more of systems work is handled by contractors. Depending on the reasons that contractors are being used for systems work, training in this area might warrant particular emphasis.

Percentage of CFO Workload Handled by Contractors

Agency	Function		
	Policy Support Services	Systems	Operations
USDA	0	10	20
Commerce	0	1	0
DOD	2	5	1
Education	0	45	15
DOE	0	15.3	8.3
HHS	0	50	5
HUD	0	30	1
DOI	**	**	**
DOJ	15	30	15
DOL	0	60	20
State	0	50	15
DOT	1	15	6
Treasury	5	15	5
VA	0	2	0
AID	0	90	10
EPA	18	64	25
FEMA	2	15	0
GSA	*	*	*
NASA	0	6.3	13.9
NSF	0	0	0
NRC	0	2	13
OPM	0	44	0
SBA	*	*	*
	2.15 Percent	27.48 Percent	8.66 Percent

CFO Operations include preparation of financial statements.

* Not provided.

** Not provided in aggregate.

OMB's conclusion is that this is an area where we need a concerted, integrated program for improvement. OMB plans in that regard are detailed in the 5-year plan component of this submission.

3. Status of Accounting Standards

The Federal Government is the only major entity within the United States that is operating without generally accepted accounting standards. This lack of comprehensive and consistent accounting standards has resulted in inaccurate, non-comparable, and unreliable financial reporting. In the spring of 1990, OMB made the establishment of generally accepted Federal accounting standards the first of its five major goals under the Five Point Program for Financial Management.

In October 1990, three of the Principals of the JFMIP (the Secretary of the Treasury, the Director of OMB, and the Comptroller General) established the Federal Accounting Standards Advisory Board (FASAB). FASAB has nine members: one representative each from the Department of the Treasury, OMB, the civilian agencies, the defense and international agencies, GAO, and the Congressional Budget Office; and three representatives from outside the Federal Government. FASAB's mission is to propose accounting standards for consideration by the three JFMIP Principals.

FASAB recommendations, once approved by the three JFMIP Principals, are issued simultaneously by OMB and GAO as generally accepted accounting standards for the Federal Government.

In January 1991, the nine-member Board was appointed by the Principals. Elmer B. Staats, former Comptroller General of the United States, was appointed Chairman. Other members are: James L. Blum, Assistant Director for Budget Analysis, Congressional Budget Office; Donald H. Chapin, Assistant Comptroller General for Accounting and Financial Management; Martin Ives, Vice Chairman, Governmental Accounting Standards Board; William L. Kendig, Director of Financial Management, Department of the Interior; Edward J. Mazur, Controller, Office of Management and Budget; Gerald Murphy, Fiscal Assistant Secretary, Department of the Treasury; Cornelius E. Tierney, Partner, Ernst and Young; and Alvin Tucker, Deputy Comptroller, Department of Defense.

Establishment of Federal accounting standards is key to successful implementation of the CFOs Act:

- Agency CFOs are required to "develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, which—(A) *complies with applicable accounting principles, standards, and requirements.*" [emphasis added]

- The Director of OMB is required to "prescribe the form and content of the financial statements of executive agencies under this section, *consistent with applicable accounting principles, standards, and requirements.*" [emphasis added]

Progress in Establishing Federal Accounting Standards. Since its establishment in October 1990, FASAB has made progress.

- A full time staff of 13 has been assembled, with funding for this staff and their expenses provided by the Department of the Treasury, OMB, and GAO.

- Full-day Board meetings are held in a public setting, on a monthly basis.

- Given the lengthy process involved in promulgating final accounting standards, in April 1991, FASAB recommended, and the JFMIP Principals approved, guidance on interim accounting standards to be used by Federal agencies. Based on responses to the OMB data request in preparation for this status report, all of the CFOs Act agencies are following the interim guidance.

- In November 1991, FASAB issued an exposure draft for nine accounting standards involving financial resources and funded liabilities. FASAB expects to hold a public hearing on these standards in early 1992.

- Based on work now underway, FASAB expects to issue two more exposure drafts in early FY 1993. The first will address accounting for inventories and other materials held by Government entities; the second will address accounting for loans and loan guarantees. The latter will reflect the Federal Credit Reform Act provisions of the Omnibus Budget Reconciliation Act of 1990.

- FASAB is currently considering the following additional issues: (i) user needs and reporting objectives in a Federal Government environment; and (ii) accounting for long-term liabilities and other commitments. Staff research is also beginning on accounting for physical assets and the recognition of revenue.

Overall Status of Federal Accounting Standards. The establishment of FASAB has broken the impasse occasioned in 1986 by the Supreme Court's decision in *Bowsher v. Synar* that the Comptroller General cannot issue regulations binding on entities outside the Legislative branch. Since generally accepted accounting standards are the bedrock of financial management, establishment of FASAB to recommend such standards constitutes a major step forward.

In assessing FASAB's progress over these past 15 months, two points need to be kept in mind: FASAB is using the traditional process for standards-setting, which is highly deliberative and participative; and the FASAB Members, by design, represent widely divergent views on Federal financial matters. Given these factors, OMB judges that FASAB has made progress.

The 5-year plan component of this submission outlines FASAB's long-term strategy for providing the JFMIP Principals with recommendations on a comprehensive set of accounting standards.

4. Status of Financial Systems

Until the mid-1980s, the Federal Government lacked government-wide policies and standards for its financial systems. Duplicative, inconsistent, inefficient, and antiquated financial systems were the rule, not the exception.

This situation started changing under OMB's Reform '88 Program. In 1984, OMB issued Circular A–127, Financial Management Systems, which directed agencies toward two goals: single, integrated accounting systems, and reduction of the number of administrative subsystems performing the same functions. Cross-servicing arrangements and the General Services Administration's "off-the-shelf" software schedule were introduced as principal vehicles toward these ends. In 1986, a government-wide Standard General Ledger (SGL) was established. In 1988, the JMFIP issued Core Financial Systems Requirements for the Federal Government.

In 1990, the CFOs Act set forth significantly greater requirements for agency financial systems. Under the Act, agency CFOs must develop and maintain integrated accounting and financial management systems that (among other requirements):

- Comply with OMB and other government-wide policies and requirements;
- Provide complete, reliable, consistent, and timely information which is prepared uniformly and is responsive to the needs of agency management;
- Integrate accounting and budgeting information; and
- Systematically measure performance.

Recent Actions to Strengthen Federal Financial Systems. Over the past several years, efforts have continued to strengthen Federal financial systems.

- Through cross-servicing arrangements, significant systems efficiencies have been achieved. For example:
  - (i) Currently, more than 50 external clients rely on the General Services Administration for accounting, payroll, and other financial services.
  - (ii) Forty-three external clients rely on the Department of Agriculture for payroll services.
  - (iii) The Department of Health and Human Services is now performing electronic grant payment functions for 31 external clients.

(iv) The Department of the Treasury's Financial Management Service is providing administrative accounting services to six external clients, with three more clients scheduled to begin cross-servicing in October 1992.

(v) The Department of the Interior is providing payroll/personnel services to three external clients; accounting/payments services to five clients; and quarters management services to seven clients.

— Progress has been made consistent with the second point established under OMB's Five Point Program for Financial Management ("Establishing Systems Functional and Information Standards"):

(i) In the area of functional standards, the JFMIP has built on its Core Financial Systems Requirements by issuing standards for payroll and travel systems. The JFMIP also has projects underway to develop functional standards for inventory systems, seized assets systems, and credit systems. The JFMIP will also update the Core Requirements.

(ii) In the area of information standards, in October 1991, the JFMIP issued a report titled "Project on Standardization of Basic Financial Information Requirements of Central Agencies." The report, which represents a first step toward an integrated OMB/Treasury data base, listed and defined all financial data elements required by OMB and Treasury. OMB and Treasury must now model these data definitions, to eliminate any ambiguity and ensure that the definitions fully meet all pertinent functional requirements.

— OMB has also undertaken efforts consistent with the third point established under OMB's Five Point Program for Financial Management ("Improving Agency Financial Systems"). These efforts have included:

(i) In-depth reviews of financial systems planning in five agencies;

(ii) Streamlining of the process for agency reporting on financial systems plans;

(iii) OMB/Treasury/agency hearings on all CFOs Act agency systems plans;

(iv) Collaboration with the CFO Council and the Department of the Treasury to ensure that "off-the-shelf" accounting software systems conform with the JFMIP Core Financial Systems Requirements; and

(v) A joint OMB/Department of the Interior SWAT team, which resulted in the Bureau of Indian Affairs' successful conversion to the Department of the Interior's administrative accounting system in October 1991. (SWAT teams are further discussed in Section A.5 of this status report.)

— Initial steps have been taken toward meeting the fourth point established under OMB's Five Point Program for Financial Management ("Integrating Central Agency Financial System Data Bases"). In February 1991, agency submissions of Standard Form 133, Budget Execution, were automated by use of a Treasury data base accessible to OMB. Short-term projects are underway to enhance this basic data base (through, for example, adding credit reform data) and to define further integration of OMB and Treasury reporting requirements. (Long-term projects to define future requirements for the government-wide data base are discussed in Section B.4 of the 5-year plan, "Plans for Financial Systems.")

— Most significantly, the Administration has supported substantial amounts of funding for financial systems upgrades. The President's 1992 Budget requested $647 million for this purpose; $628 million was appropriated by the Congress. The President's 1993 Budget proposes $659 million for financial systems enhancements.

Overall Status of Federal Financial Systems. Clearly, progress is being made in terms of cross-servicing arrangements, government-wide systems functional and information standards, and the integration of central agency data bases. The challenge is to determine what effect that progress, and OMB's other systems improvement efforts, is having on the overall performance of agency financial systems.

Unfortunately, no comprehensive assessment of Federal financial systems is currently available. However, OMB's data request in preparation for this submission yielded the following information:

— The SGL has been fully implemented at the transaction level in six of the 23 CFOs Act agencies.

— In the 17 CFOs Act agencies that have not fully implemented the SGL at the transaction level, at least 11 also lack a complete crosswalk between their accounting systems and the SGL.

— Of the 23 CFOs Act agencies, 11 have automated financial systems that fully integrate budget and accounting data. The remaining agencies are in various stages of implementing such systems.

— Of the 23 CFOs Act agencies, 12 use automated financial systems to monitor budget execution in relation to actual expenditures. Other agencies partially depend on automated financial systems to perform this function, or perform this function manually.

These data indicate that a number of Federal financial systems still cannot meet basic government-wide requirements, much less the CFOs Act requirements that systems provide for information useful to decision-makers and for the systematic measurement of performance. When asked by OMB for an assessment of the timeliness, accuracy and usefulness of their financial management systems, the CFOs Act agencies provided the following responses:

Agencies' Assessment of Their Financial Management Systems

	Excellent	Good	Fair	Poor	Not Provided
Timeliness:					
Primary	17%	43%	22%	13%	4%
Administrative	9%	43%	26%	9%	13%
Program	4%	30%	26%	17%	22%
Accuracy:					
Primary	17%	52%	17%	9%	4%
Administrative	4%	52%	26%	4%	13%
Program	4%	43%	17%	13%	22%
Usefulness:					
Primary	17%	43%	13%	22%	4%
Administrative	4%	61%	13%	9%	13%
Program	4%	35%	26%	13%	22%

OMB's High Risk List is another indicator of the status of Federal financial systems. Selected financial systems of 13 of the 23 CFOs Act agencies are included on this List. These systems represent a total of 16 High Risk Areas for which the President's 1993 Budget proposes incremental funding of $108.9 million.

Agencies With Financial Systems on the High Risk List (With Requested FY 1993 Budget Authority)

Agency	Proposed FY 1993 Investment* (Dollars in Thousands)
Commerce	5,200
Education	8,100
HUD	21,049
DOI—BIA Accounting	1,000
DOI—BIA Trust Funds	9,800
DOJ—INS	4,222
DOJ—USMS	3,380
DOL	1,200
State	10,640
DOT	6,213
Treasury—Customs	19,529
Treasury—Departmental	170
AID	3,830
EPA	20
FEMA	900
NASA	13,679
Subtotal, CFO Agencies	108,932
FCA	269
NLRB	0
PC	300
PBGC	570
USIA	1,500
USSAH	639
Subtotal, Non-CFO Agencies	3,278
Total	112,210

*These investments are the critical, marginal amounts of funding needed to ensure that the corresponding program funding is spent efficiently and effectively.

Based on these indicators, OMB judges financial systems to be an area of particular weakness within Federal financial management. The 5-year plan component of this submission details OMB's plans to supplement policy guidance and requirements with a strategy to ensure that financial systems problems are fixed.

5. Status of Internal Controls

In 1982, enactment of the Federal Managers' Financial Integrity Act reflected wide-spread concern that Federal programs and financial operations were out of control because they lacked effective systems of internal control. In the intervening years, OMB has worked to explain the concept of internal/management controls to the Federal community, establish workable policies to implement

FMFIA, and encourage full and meaningful reporting on internal control weaknesses. Major aspects of OMB's efforts have included:

— In 1982, issuance of OMB Circular A–123, Internal Controls;

— In 1984, issuance of OMB Circular A–127, Financial Systems;

— In 1986, revision of OMB Circular A–123; and

— In 1986, establishment of the interagency Management Control Coordinators Council.

The CFOs Act buttresses these efforts by requiring that agency CFOs "develop and maintain integrated agency accounting and financial management systems, *including financial reporting and internal controls.*" [emphasis added]

Actions to Strengthen Internal Controls. Over the past several years, the Administration has taken significant additional steps to strengthen Federal internal controls.

— In 1989, OMB's High Risk List was established, as a result of the OMB Director's asking agency deputies to undertake fresh, personal assessments of their internal control weaknesses. The High Risk List is intended to focus attention and resources on eliminating major risks confronting the Federal Government.

— In 1990, OMB supplemented its government-wide internal control policies by urging agencies to adopt six key internal control review practices. These practices had been designed by the Management Control Coordinators Council to ensure that the internal control review process consists of more than paper pushing. They involve: (i) integrating the FMFIA and budget processes; (ii) establishing an early warning reporting capability; (iii) establishing agency management control review committees; (iv) improving FMFIA training; (v) prioritizing FMFIA weaknesses; and (vi) validating corrective actions.

— In 1990, OMB initiated a program of SWAT and review teams to address high risk areas where the pace of corrective action needs to be accelerated. (SWAT and review teams are special, joint agency/OMB efforts to correct long-standing weaknesses in selected high risk areas. SWAT teams are generally short-term in nature; review teams are generally longer term.) As of this date, 10 SWAT and review team projects have been completed, and another 18 are underway.

— In 1991, the Administration decided to heighten the impact of the High Risk List by including a High Risk scorecard in the President's Budget and earmarking funding for reducing or eliminating the risks. This scorecard and funding appear in the President's 1992 and 1993 Budgets. The President's 1993 Budget requests over $2 billion for the correction of high risk areas.

— In 1991, OMB moved aggressively to implement certain provisions of the CFOs Act that could be related to internal controls. OMB required, in its September 10, 1991 Bulletin 91–14, Audit Requirements for Federal Financial Statements, that audits of financial statements include reports on internal controls which:

(i) Are based on actual testing of the controls; and

(ii) Provide auditor assurance on whether internal control objectives are being met.

The Bulletin further requires that the auditor report on the entity's compliance with OMB guidelines for the FMFIA process, and disclose any discrepancies between the FMFIA report and the auditor's findings. In all these respects, the auditor's coverage of internal controls has been extended well beyond traditional practice.

— Throughout the Bush Administration, funding for Inspectors General in the 23 CFOs Act agencies has increased, from a total of $628.8 million in FY 1990 to a proposed total of $849.2 million in the President's 1993 Budget. (It should be noted, however, that for FY 1992 the Congress failed to appropriate $29 million of the $54 million requested by the Administration for statutorily-mandated Inspector General audits of financial statements.)

Overall Status of Internal Controls. OMB believes that Federal agencies are paying more attention to internal controls now than ever before—in large part because of the High Risk List.

The issue is whether this increased agency attention is actually resulting in stronger internal controls. The available evidence indicates that progress is being made. As part C of this status report details, agencies reported that, in 1991, they corrected 111 material weaknesses and 31 non-conformances with Federal financial policies. Also, since establishment of the High Risk List, 28 high risks have been sufficiently mitigated to warrant removal from the List.

At the same time, OMB and the agencies have concerns about the consistency of FMFIA processes and reporting across the Government. The 5-year plan component of this submission outlines actions OMB will take to address these concerns. In addition, starting in 1992, implementation of OMB's Bulletin 91–14, Audit Requirements for Federal Financial Statements, will yield more precise and authoritative information on the status of Federal internal controls. Implementation of these audit requirements will allow Inspectors General to build on their on-going reviews of agency FMFIA reports.

6. Status of Asset Management

In the early 1980s, the Federal Government lacked a comprehensive credit management and debt collection policy for its $242 billion in receivables, $30 billion of which were delinquent. In addition, Federal cash flows, estimated at almost $1 trillion, were not sufficiently controlled. The gravity of this situation prompted enactment of two seminal pieces of legislation: the Debt Collection Act of 1982 and the Prompt Payment Act of 1982.

OMB and the Department of the Treasury worked together to establish a regulatory and organizational framework for implementing these pieces of legislation:

— In 1982, OMB issued Circular A–125, Prompt Payment, which prescribed policies and procedures for making payments under the provisions of the Act.

— In 1985, OMB issued Circular A–129, Managing Federal Credit Programs, which established a comprehensive program for effective credit management and debt collection.

— In 1986, OMB and Treasury signed a memorandum of understanding that assigned to Treasury the lead role for overseeing implementation of government-wide credit management standards and requirements.

— In 1989, the Federal Credit Policy Working Group, chaired by OMB and consisting of policy-level representatives of major Federal credit agencies, was reconstituted as a subcommittee of the Domestic Policy Council.

With this new emphasis on credit and cash management, progress has been made. For example:

— In 1985, a government-wide contract was established to enable collection of delinquent Federal debt by private collection firms (over $71 million collected through FY 1991, with the Department of Education recovering $421 million since 1982 through a separate contract).

— In 1986, the IRS began offsetting income tax refunds due individuals delinquent on Federal debts (over $2.1 billion collected through calendar 1991).

— In 1987, the Government began offsetting the salaries of Federal employees delinquent on debts to the Federal Government (over $152 million collected through FY 1991).

— In 1987, the Department of Justice began a pilot project to test the use of private sector attorneys for litigation and collection of delinquent debt (over $20 million collected through FY 1991).

— In 1987, the Department of the Treasury initiated Vendor Express for making electronic payments to contractors, vendors, State and local governments, colleges, and universities (over 3 million payments totaling $225 billion in FY 1991).

In 1990, enactment of the CFOs Act reenforced these credit and cash management improvement efforts. First, agency CFOs are required to "direct, manage and provide policy guidance and oversight of agency financial management personnel, activities, and operations, *including . . . the implementation of agency asset management systems, including systems for cash management, credit management, debt collection, and property and inventory management and control.*" [emphasis added] Second, audited financial statements are required for all credit programs, beginning with statements covering 1991 activity (subject to OMB waivers, which may be provided only for audited financial statements covering 1991 activity).

Recent Actions to Strengthen Federal Asset Management. Over the past several years, both the Congress and the Administration have taken significant steps to strengthen Federal asset management. For example:

— In 1988, the Prompt Payment Act was amended to eliminate the grace period for payments.

— In 1989, the Department of the Treasury published "Managing Government Credit" as part of the Treasury Financial Manual. This operational guidance for Federal credit programs was based on the policy framework provided by Circular A–129.

— In 1990, the Federal Credit Reform Act provisions of the Omnibus Budget Reconciliation Act of 1990 put budgeting for credit activities on the same basis as other programs by requiring calculation of, and annual appropriations for, the subsidies inherent in direct and guaranteed loans.

— In 1990, OMB Bulletin 91–05, Guidance for the Management of Guaranteed Loan Programs, was issued. This bulletin was the result of a Treasury-led interagency review of guaranteed loan management practices in the agencies.

— In 1990, the Cash Management Improvement Act established, for the first time, systematic and fair rules for transfers of cash between the Federal Government and State Governments.

— In 1990, the Government initiated the Small Purchase BankCard Program for use by Federal agencies. As of December 1991, approximately 35,000 cards had been issued, and transactions totalling over $224 million had been made.

— In 1990, the Departments of Agriculture and Health and Human Services and the State of Maryland initiated a pilot program to test electronic payment mechanisms for benefit transfers.

— In 1990, the Federal Debt Collection Procedures Act provided Justice with enhanced debt litigation capability, including standard Federal civil procedures for recovering judgments on debt and obtaining pre-judgment remedies.

— In 1991, the Federal Credit Policy Working Group instituted quarterly "Early Warning Reports" to show significant trends in the performance of the portfolios of the five major credit agencies.

— In 1991, the IRS took action to improve management of its accounts receivable, including the appointment of an Accounts Receivable Executive Officer, development of an accounts receivable action plan, and establishment of an allowance for doubtful accounts.

— In 1991, the Federal Credit Policy Working Group established (with the Department of the Treasury providing operating support) a Credit Management Training Institute to provide training to agency credit management staff.

Audited Financial Statements for Credit Programs. Three major credit agencies—the Farmers Home Administration, the Federal Housing Administration, and the Department of Veterans Affairs—have prepared financial statements and subjected them to audit at least once in the last three years. In accordance with the CFOs Act, these three organizations and the Small Business Administration will all have audited financial statements covering FY 1991 activity.

Overall Status of Federal Asset Management. Efficient and effective management of receivables and cash remains a challenge for the Federal Government. Receivables, including tax debt, now total $301 billion. Another $653 billion in guaranteed loans is outstanding. The Government's cash flows have risen to an annual level of $2.6 trillion. There are signs that management of these assets is improving in some respects:

— Delinquent non-tax receivables dropped to $45.5 billion in 1991, a decrease of $192 million from 1990. This is the first significant decrease in delinquencies since OMB began keeping government-wide information in the early 1980s.

— In 1991, Federal agencies reported making 88 percent of their payments to vendors on time, compared to 86 percent in 1986.

— Electronic funds transfer/direct deposit to bank accounts is in wide use. Currently, 47 percent of payments to beneficiaries and 79 percent of Federal employees' salaries are paid electronically.

Even with these gains, however, areas of serious concern remain:

— Terminations of guaranteed loans due to defaults have continued to rise, increasing from $11.9 billion in 1990 to $13.9 billion in 1991.

— Delinquent IRS accounts receivable at the end of 1991 stood at $67 billion, up 9.5 percent from 1990.

— Insufficient attention has been given to the other major categories of assets in the Federal Government: property, plant, and equipment, valued at $540 billion; and inventories, valued at $261 billion. Although many agencies have undertaken individual efforts to improve management of these assets, more needs to be done on a government-wide basis to address policy, systems, and accounting requirements.

7. Status of Communication with Financial Officers of State and Local Governments, Private Contractors, and Grantees

OMB has traditionally maintained a strong leadership role with financial officers of State and local governments, private contractors, and grantees through the promulgation of policy circulars and rules in the areas of financial and grants management.

— In the grants management area, Circular A–102 and the implementing government-wide common rule, Grants and Cooperative Agreements with State and Local Governments, set broad administrative requirements for grants, and implement Federalism with State governments by minimizing and simplifying Federal requirements. (The implementing common rule provides States with broader authorities in such areas as financial management systems, procurement, and equipment.)

— Circulars A–21, A–87, and A–122 establish cost principles for grants and contracts with educational institutions, State and local governments, and non-profit organizations, respectively.

— Circulars A–128 and A–133 establish audit requirements for grants with State and local governments; and colleges, universities, and non-profit organizations, respectively.

— The Cost Accounting Standards Board (CASB) has been re-established (pursuant to P.L. 100–679) in OMB's Office of Federal Procurement Policy (OFPP) to achieve uniformity and consistency in the cost accounting practices governing measurement, assignment and allocation of costs to contracts with the Federal Government. The Administrator of OFPP serves as Board Chairman and appoints the five Board members (one from industry, one from the private sector, and three from Government). The Board is the successor to the previous CASB which was in existence from 1970 until 1980; the prior CASB promulgated the existing Cost Accounting Standards (CAS) which presently govern the measurement, assignment and allocation of costs to Government defense contracts.

The CFOs Act now mandates, in addition, that OMB's Deputy Director for Management "foster the exchange with [financial officers of State and local governments] of information concerning financial management standards, techniques, and processes." OMB also places priority on the efforts of CASB to seek a greater degree of uniformity, consistency, and equity in the costing of Government contracts.

Recent Actions to Strengthen Communication with Financial Officers of State and Local Governments and Private Sector Contract and Grant Recipients. Over the past several years, significant steps have been taken to improve and simplify grants management and to strengthen controls over the expenditure of Federal funds.

— In 1987, President Reagan issued the first Federalism Executive Order, which envisioned a Federal partnership with the States, in part through a commitment to minimize Federal regulation of the States. In February 1990, President Bush reaffirmed that Federal agencies were to adhere to Federalism principles/criteria in developing and implementing policies having substantial direct effects on States and local governments.

— In March 1988, OMB institutionalized Federalism through the issuance of the grants management common rule. The common rule was a major step toward greater uniformity and business-like management of Federal grants to State and local governments. The rule, jointly signed by 33 Federal agencies, updated OMB Circular A–102, originally issued in 1974.

— In March 1990, OMB issued Circular A–133, which establishes audit requirements for colleges, universities, and non-profit organizations. Full implementation of this Circular will assist in curbing abuses in the way educational institutions charge indirect costs to Federal programs.

— The Cash Management Improvement Act of 1990 established, for the first time, systematic and fair rules for transfers of cash between the Federal Government and State governments. The Department of the Treasury is developing regulations to implement the Act, and bring equity and efficiency to the processes used by Federal agencies to make over $150 billion in payments to States each year. Section 6 of this status report, Asset Management, discusses additional Federal/State initiatives in the area of cash management.

— In 1991, in association with Circular A–128, OMB updated the Compliance Supplement for State and local governments that specifies the principal program requirements under which major Federally-funded programs are administered. The Compliance Supplement had last been issued in 1985. The 1991 update will improve audit effectiveness by providing information to grantees and auditors on new and modified Federal programs.

— To facilitate full implementation of Circular A–133, in 1991, OMB issued a Compliance Supplement for audits of institutions of higher education and other non-profit institutions.

— In October 1991, OMB Circular A–21, Cost Principles for Educational Institutions, was revised to curb abuses in the way that educational institutions charge indirect costs to the Federal Government. Additional A–21 revisions are scheduled for issuance in 1992. In conjunction with these A–21 revisions, CASB will develop appropriate cost accounting standards for application to Federal contracts with colleges and universities.

— An OFFM branch chief serves on the National Intergovernmental Audit Forum Executive Committee and, thus, participates with Federal Inspectors General and State and local government auditors in the coordination of audit practices and initiatives that affect State and local governments.

— CASB has taken several significant actions over the past year.

(i) The Board proposed to extend CAS coverage to civilian agency contracts to provide for a greater degree of uniformity in the costing methodologies employed by all U.S. Government contractors.

(ii) The Board proposed to recodify into a single set of uniform regulations the two sets of cost accounting standards that have been applied to U.S. Government prime and subcontracts.

(iii) The Board released a Staff Discussion Paper concerning measurement and period cost assignment issues governing pension costs attributable to unfunded contractor pension plans.

(iv) The Board released a Staff Discussion Paper on accounting for fully-funded defined benefit pension plans. The Board is seeking to resolve underlying difficulties in contract pension costing dealing with current period recognition of future material expenditures.

(v) The Board released a Staff Discussion Paper concerning the definition of the appropriate base to be used in depreciating capital assets which are acquired by government contractors. This issue is of particular interest in the Government contracting community because of asset base "step-ups" that have resulted from business combinations involving certain contractors. The Board is considering whether the original cost of the asset, or in the alternative, its current value, should be used for Government contract depreciation costing purposes subsequent to a merger.

(vi) The Board released a Staff Discussion Paper that would establish the following requirements for the colleges and universities identified in Circular A–21: consistency in estimating, accumulating and reporting costs; consistency in allocating costs incurred for the same purpose; accounting for unallowable costs; establishment of a cost accounting period; and use of a cost accounting practices disclosure statement specifically designed for educational institutions.

(vii) Finally, the Board proposed a doubling of the threshold for the initiation of CAS coverage (the so-called "trigger contract") to $1 million. CASB also proposed "modified" CAS coverage when the net amount of all Government contracts awarded to a contractor segment or business unit does not exceed $20 million a year (up from the present $10 million).

Overall Status of Communication with Financial Officers of State and Local Governments, Private Contractors, and Grantees. The OMB initiatives cited above are due in large part to OMB's continuing dialogue with financial officers of State and local governments, private contractors, and grantees. While progress has been made, additional efforts are needed to define indirect and direct costs, provide for consistent treatment, and ensure that the Federal Government's interests are protected. The 5-year plan component of this submission outlines efforts OMB intends to undertake to expand this dialogue.

8. Status of Audited Financial Reporting

8a. Audited Financial Statements. In order to strengthen accountability for Federal financial management performance, in 1990 the Director of OMB established a government-wide program of audited financial statements. Accordingly, audited financial statements for Federal agencies were designated as the fifth point of OMB's Five Point Program for Financial Management.

The CFOs Act sets the following statutory requirements for Executive branch agencies:

— OMB prescription of the form and content of the financial statements of executive agencies;

— Starting in 1992, preparation and audit of the preceding year financial statements for all revolving funds, trust funds, and commercial activities within the 23 agencies covered by the CFOs Act; and

— Starting in 1991 (with respect to 1990 financial activity), establishment of a statutory 3-year pilot program of organization-wide audited financial statements.

Under the CFOs Act, OMB is authorized to waive (i) the preparation and audit requirements for trust funds/revolving funds/commercial function activity in 1991; and (ii) the audit requirements for pilot program financial statements covering 1990 and 1991.

Actions to Meet CFOs Act Requirements for Audited Financial Statements. OMB has taken a series of actions to meet the Act's requirements for audited financial statements.

— In the early part of calendar 1991, OMB worked with the agencies designated in the CFOs Act to identify the universe of revolving funds, trust funds, and commercial activities subject to the CFOs Act requirements for audited financial statements. The universe was determined to consist of more than 500 funds and activities.

— OMB and the agencies then sought to determine groupings of these funds and activities for which meaningful financial statements could be prepared. As a result, 138 activities and organizations have been defined.

— In August 1991, OMB met its statutory obligation to identify to the Congress the substantially commercial activities within executive agencies.

— In September 1991, after extensive consultation with the CFO Council, the Inspectors General, and GAO, OMB issued Bulletin 91–15, Guidance on Form and Content of Financial Statements on FY 1991 Activity. This Bulletin defines financial statements as including (i) a narrative discussion (overview) of the reporting entity and its program and financial performance; (ii) the principal statements and notes; (iii) combining statements; and (iv) supplemental financial and management information.

— In September 1991, after extensive consultation with the CFO Council, the Inspectors General, GAO, and the American Institute of Certified Public Accountants, OMB issued Bulletin 91–14, Audit Requirements for Federal Financial Statements. This Bulletin expands traditional audit coverage with respect to internal controls and the overview and supplemental parts of the financial statement.

— In August and September 1991, OMB worked with both the CFO Council and the President's Council on Integrity and Efficiency (PCIE) to establish special task groups on CFOs Act implementation. Since that time, OMB and the PCIE and CFO Council task groups have been developing expanded guidance for audited financial statements on fiscal year 1992 activity. Issuance of the expanded guidance on preparation of financial statements is scheduled for the spring of 1992; issuance of the expanded guidance on audits of financial statements is scheduled for the summer of 1992.

Overall Status of Audited Financial Statements. Federal policies for audited financial statements have been significantly strengthened since enactment of the CFOs Act. The current policies build on traditional accounting in order to make Federal financial statements more understandable and useful to decision-makers, particularly the Congress, agency heads, and program managers. Agency CFOs and Inspectors General continue to be full participants in refining and expanding the government-wide policies.

Progress is being made in implementing these government-wide policies, despite the Congress' failure to provide all the necessary funding in fiscal year 1992. (The President's 1992 Budget proposed $92 million for the preparation and audit of financial statements in accordance with the CFOs Act; final FY 1992 appropriations provided only $57 million for this purpose.)

— As noted above, OMB and the CFOs Act agencies have identified 138 activities and organizations that have trust funds, revolving funds, and/or commercial activities, which are subject to the CFOs Act requirements for annual audited financial statements. Under authority granted in the CFOs Act, OMB has waived the requirement for audited financial statements on 1991 activity with respect to 63 of these reporting entities. The waivers generally provide for the inability of some programs to produce auditable financial statements, most often due to major systems work underway or lack of resources to prepare the statements and/or conduct the audits. (A list of the 138 reporting entities and waivers is found at the end of this section.)

— The pilot program of organization-wide audited financial statements involves a total of 10 organizations (five organizations enter the pilot program in 1991; another two enter in 1992; and another three in 1993).

  In 1991, the five participants in the pilot program all produced financial statements on their 1990 operations. In addition, three of the participants—the Department of Labor, the General Services Administration, and the Department of Health and Human Services (for the Social Security Administration)—obtained independent audits of their 1990 financial statements. Under authority granted in the CFOs Act, OMB waived the organization-wide audit requirement with respect to the Departments of Agriculture and Veterans Affairs.

  It should be noted, however, that the Inspector General of the Department of Veterans Affairs is conducting an audit of the Housing Credit segment of the Department's 1990 financial statement. Similarly, the Inspector General of the Department of Agriculture has audited the following major components of the Department's 1990 financial statement: the Farmers Home Administration, the Rural Electrification Administration, the Federal Crop Insurance Corporation, and the Commodity Credit Corporation.

  In 1992, the seven required participants in the organization-wide pilot program will all produce organization-wide audited financial statements on their 1991 activity.

Pilot Program

Organization	Years of Pilot [1]	Waiver For Audit of FY 1990 Statement
Department of Agriculture Consolidated Financial Statements	1990 through 1992	Yes
Department of Labor Consolidated Financial Statements	1990 through 1992	No
Department of Veterans Affairs Consolidated Financial Statements	1990 through 1992	Yes
General Services Administration Consolidated Financial Statements	1990 through 1992	No
Department of Health and Human Services—Social Security Administration	1990 through 1992	No
Department of Housing and Urban Development Consolidated Financial Statements	1991 and 1992	Not Applicable
Department of the Army	1991 and 1992	Not Applicable
Department of the Air Force	1992	Not Applicable
Internal Revenue Service	1992	Not Applicable
U.S. Customs Service	1992	Not Applicable

[1] Years of pilot represent the years covered by the financial statements.

The Executive branch's ability to implement the pilot program is due in large part to the efforts of GAO.

(i) Previous work by GAO established the basis for audited financial statements in the Departments of Agriculture and Veterans Affairs, and the General Services Administration.

(ii) In 1992 and 1993, GAO will be conducting the pilot program audit of the Department of the Army.

(iii) In 1993, GAO will conduct the pilot program audits of the IRS and the U.S. Customs Service; and, building on its previous work, will be consulting with and monitoring the pilot program audit of the Air Force.

8b. Performance Information. The CFOs Act requires that agency CFOs "develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal controls, *which . . . provides for . . . the systematic measurement of performance.*" [emphasis added]

OMB considers it critically important that, in addition to systematically measuring performance, agency CFOs report the results of the performance measurement in their financial statements. Audited financial statements that link financial and program performance data will provide decision-makers with information that is essential for more informed program judgments.

OMB has identified three types of performance indicators that should be systematically measured and reported by agency CFOs:

— Program performance indicators, which show how well agencies are doing in implementing their programs and achieving the results defined by the Congress when authorizing the programs;

— Financial management performance indicators, which show how agencies are progressing toward fulfilling responsibilities such as paying bills on time, collecting debts, and maintaining good internal controls; and

— Financial performance indicators, which show how well agencies are doing financially, as evidenced by trends in their operating costs, capital investments, financial obligations, and other measures of financial position and results.

Agencies are generally measuring and reporting on financial management performance. Measuring and reporting on financial performance is a practice that is gradually being adopted. Based on survey work by OMB and GAO, major portions of the Government are not, however, systematically measuring and reporting on program performance.

Actions to Improve Federal Performance Information. OMB Bulletin 91–15, Guidance on Form and Content of Financial Statements on FY 1991 Financial Activity, urges agencies to include performance information in their annual financial statements. The following fact finding and analytical efforts are assisting both OMB and the agencies in meeting that goal.

— On February 5, 1992, OMB issued guidance to the agencies on selecting appropriate performance measures and presenting the performance information in annual financial statements. The guidance also initiated a project to encourage agencies that conduct similar programs to identify and adopt common measures.

— OMB, GAO, and the Congressional Budget Office are visiting State and local governments and reviewing performance measurement systems at these levels. The visits are proving useful in determining program elements requiring performance measurement.

— OMB is participating in an Organization for Economic Cooperation and Development (OECD) study of performance measurement in OECD member countries. This study will produce, by the summer of 1992, case studies of these performance measurement systems.

— The Department of Treasury's Financial Management Service is undertaking an effort to prepare periodic reports on private sector performance measurement systems (where analogies might be drawn with governmental operations).

— OMB is continuing to work with the Congress on several legislative proposals involving the establishment of performance standards and performance measurement systems throughout the Federal Government.

Overall Status of Federal Performance Information. The most comprehensive assessment of Federal performance information currently available is GAO's fall 1991 survey of Federal agencies' current and planned performance measurement systems. The survey shows that, while virtually all agencies selectively measure some performance, most agency officials are less than fully satisfied with the data derived from such measurement, particularly as they relate to making budget decisions, managing programs, and assessing accountability.

The CFO community's commitment to address performance measurement was positively reflected in the FY 1991 CFOs' annual reports from the Department of Labor, the General Services Administration, and the Department of Health and Human Services.

— The Department of Labor CFO's annual report included data showing improved performance in cash and credit management.

— The General Services Administration CFO's annual report presented extensive program performance data, some of which was related directly to financial data. For example, the report provided operating costs per square foot in government-owned buildings for the period 1985 through 1990.

— The Department of Health and Human Services CFO's annual report, which transmitted the FY 1990 audited financial statement for the Social Security Administration, contained considerable performance measurement information. For example, the report presented unit costs for functions such as processing Social Security claims and issuing Social Security checks.

OMB believes that agency officials, and especially the CFOs, are eager to develop better performance information. However, this is in many respects uncharted territory for the Federal Government, and the agencies will need substantial direction and support as they move into it. OMB's plans for providing that direction and support are outlined in the 5-year plan component of this submission.

Activities and Organizations Having Trust Funds, Revolving Funds, Commercial Activities, and Other Related Accounts

Agency	Activity/Organization	Waiver granted for preparation and audit of FY 1991 financial statement
Agriculture	1. Farmers Home Administration	
	2. Rural Electrification Administration/Rural Telephone Bank	
	3. Federal Crop Insurance Corporation	
	4. Forest Service	
	5. Commodity Credit Corporation	
	6. Food and Nutrition Service	
	7. Other Revolving Funds, Trust Funds and Commercial Activities	
Commerce	8. Economic Development Administration	
	9. Bureau of the Census	X
	10. Bureau of Economic Analysis	X
	11. International Trade Administration	X
	12. Travel and Tourism Administration	X
	13. National Oceanic and Atmospheric Administration	X
	14. Patent and Trademark Office	X
	15. National Institute of Standards and Technology	
	16. National Technical Information Service	
	17. National Telecommunications and Information Administration	X
	18. General Administration	X
Defense	19. Navy Industrial Fund	
	20. Navy Stock Funds	
	21. Marine Corps Industrial Fund	
	22. Defense Industrial Fund	
	23. Defense Stock Fund	
	24. Benefiting Appropriations/Foreign Military Sales	X
	25. Navy, Other Revolving Funds	X
	26. Navy, Other Trust Funds	X
	27. Defense Agencies, Other Revolving Funds	X
	28. Defense Agencies, Other Trust Funds	
	29. Army	
	30. Air Force	X
Education	31. Guaranteed Student Loans Program	X
	32. Facilities Loans Programs	
Energy	33. Alaska Power Marketing Administration	
	34. Bonneville Power Marketing Administration	
	35. Southeast Power Marketing Administration	
	36. Southwest Power Marketing Administration	
	37. Western Power Marketing Administration	
	38. Accounts Related to Uranium Enrichment Activities	
	39. Nuclear Waste Fund	
	40. Federal Energy Regulatory Commission	
	41. Accounts Related to Naval Petroleum Reserve	
	42. Revolving Fund Related to the Isotope Production and Sale Program	X
	43. Accounts Related to the Low Level Radioactive Waste Program	

Activities and Organizations Having Trust Funds, Revolving Funds, Commercial Activities, and Other Related Accounts

Agency	Activity/Organization	Waiver granted for preparation and audit of FY 1991 financial statement
HHS	44. Food and Drug Administration	
	45. Health Resources and Services Administration	X
	46. Indian Health Service	X
	47. Centers for Disease Control	X
	48. National Institutes of Health	
	49. Alcohol, Drug Abuse and Mental Health Administration	X
	50. Health Care Financing Administration	X
	51. Adminstration for Children and Families, Gifts and Contributions Trust Fund	X
	52. Office of the Secretary	
	53. Office of the Assistant Secretary for Health	
	54. Social Security Administration	
HUD	55. Government National Mortgage Association	
	56. Federal Housing Administration	
	57. Other Loan and Loan Guarantee Programs	
	58. Other Revolving and Trust Funds	
Interior	59. Bureau of Land Management	
	60. Bureau of Mines	X
	61. Bureau of Reclamation	
	62. U.S. Geological Survey	X
	63. Minerals Management Service	
	64. National Park Service	X
	65. Office of the Secretary	X
	66. Bureau of Indian Affairs	X
	67. Fish and Wildlife Service	X
	68. Surface Mining Reclamation and Enforcement	
Justice	69. Accounts Related to the Assets Forfeiture Fund	
	70. Working Capital Fund	
	71. Federal Prisons Industries	
	72. Bureau of Prisons Commissary Trust Fund	
	73. Immigration and Naturalization Service	
	74. Federal Bureau of Investigation	X
	75. U.S. Marshals Service	X
	76. Drug Enforcement Administration	X
	77. U.S. Attorneys	X
	78. Community Relations Services	X
Labor	79. Insurance and Pension Programs	
	80. Unemployment and Other Trust Funds	
	81. Other Revolving Funds and Commercial Activities	
	82. Pension Benefit Guaranty Corporation	
State	83. Accounts Related to Medical Services	X
	84. Foreign Service Institute	X
	85. International Boundary and Water Commission	X

Activities and Organizations Having Trust Funds, Revolving Funds, Commercial Activities, and Other Related Accounts

Agency	Activity/Organization	Waiver granted for preparation and audit of FY 1991 financial statement
	86. Bureau of Consular Affairs	X
	87. Bureau of Administration, Office of Language Services	X
	88. Bureau of Administration, Foreign Buildings Program	X
	89. Bureau of Administration, Working Capital Fund	
	90. Accounts Related to the Bureau of Administration, Executive Director, Foreign Government Leasing Program	X
	91. Unconditional Gift Fund	X
	92. Conditional Gift Fund	X
	93. Foreign Service Retirement and Disability Fund	X
	94. Bureau of Finance and Management Policy, Administrative Support at Overseas Posts	X
Transportation	95. Working Capital Funds	X
	96. Department of Transportation Gifts and Bequest Funds	X
	97. Aviation Related Trust Funds	X
	98. Highway Related Trust Funds	X
	99. Other Department of Transportation Trust Funds	X
	100. Other Revolving Funds (Coast Guard)	X
	101. Small and Disadvantaged Business Utilization Direct Loans Program	X
	102. Federal Aviation Admininstration	X
	103. Federal Railroad Administration, Commercial Functions	X
	104. Maritime Administration, Commercial Functions	X
	105. Urban Mass Transportation Administration, Commercial Functions Research and Special Programs	X
	106. Saint Lawrence Seaway Development Corporation	
Treasury	107. Departmental Offices Working Capital Fund	
	108. Gifts and Bequests, Office of the Secretary	
	109. Exchange Stabilization Fund	
	110. Federal Financing Bank	
	111. Financial Management Service Revolving Fund	
	112. Financial Management Service Trust Funds	
	113. Comptroller of the Currency	
	114. Office of Thrift Supervision	
	115. U.S. Mint	X
	116. Bureau of Engraving and Printing	
	117. Internal Revenue Service	X
	118. Customs Service	X
Veterans Affairs	119. Medical and Construction	
	120. Veterans Benefits	
	121. Housing Credit Assistance	
	122. Life Insurance	
	123. Other Revolving Funds, Trust Funds and Commercial Activities	
AID	124. Housing and Other Credit Guaranty Programs Revolving Fund	
	125. Private Sector Investment Program	
	126. Direct Loan Program	X

Activities and Organizations Having Trust Funds, Revolving Funds, Commercial Activities, and Other Related Accounts

Agency	Activity/Organization	Waiver granted for preparation and audit of FY 1991 financial statement
	127. Advance Acquisition of Excess Property	X
	128. Trust Fund Accounts	X
EPA	129. Environmental Protection Agency	X
FEMA	130. Federal Emergency Management Agency	
GSA	131. General Services Adminstration	
NASA	132. National Aeronautics and Space Administration	X
NRC	133. Nuclear Regulatory Commission	X
NSF	134. National Science Foundation Trust Fund Appropriation	
OPM	135. Reimbursable Activities	
	136. Revolving Fund	
	137. Retirement Insurance Group	
SBA	138. Small Business Administration	

B. SUMMARY OF THE MOST RECENTLY COMPLETED FINANCIAL STATEMENTS AND FINANCIAL STATEMENT AUDIT REPORTS FOR FEDERAL AGENCIES AND GOVERNMENT CORPORATIONS

1. Federal Agencies

Under the CFOs Act, the first five pilot project agencies are required to prepare financial statements by March 31, 1991, and to obtain independent audits of those statements by June 30, 1991. The next relevant deadline is March 31, 1992, when preparation of a series of financial statements (covering trust funds, revolving funds, and substantially commercial functions, in addition to pilot project agencies) is required. Thus, to date, financial statements and related audits are available only for the first five pilot project agencies (the Departments of Agriculture, Labor, and Veterans Affairs; the General Services Administration; and the Social Security Administration).

All five of these entities prepared the required financial statements on FY 1990 activity. However, OMB waived, for the Departments of Agriculture and Veterans Affairs, the requirement for independent audit of their financial statements. The waivers were necessary because these Departments lacked the resources to have the audits conducted. (The Congress failed to act on an FY 1991 Budget Amendment proposed by the Administration for the purpose of providing resources for financial statement audits in these and other Executive branch agencies.)

The following table summarizes the financial statements prepared by the five pilot project agencies, and the corresponding audit reports obtained by the Department of Labor, the General Services Administration, and the Social Security Administration.

Pilot Project
Agency Financial Statements/Audits

Agency	Entity Covered	Financial Statements	Audit Reports	OMB Comments
Department of Labor	Agency-wide	All required principal statements. Ten supplemental statements providing further detail in support of the principal statements.	Audit opinion qualified because the auditor could not verify estimates of unemployment insurance tax accounts receivable and documentation for grant advances was not available until after the audit was completed. Eighteen internal control weaknesses. Complied in all material respects with laws and regulations.	IG assistance required to compile financial statements. Eight internal control weaknesses from prior audits remain uncorrected.
General Services Administration	Agency-wide	All required principal statements. Four supplemental schedules providing further detail in support of the principal statements.	Unqualified audit opinion. One internal control weakness relating to the periodic substantiation of supplies inventory. Complied in all material respects with laws and regulations.	Three consecutive unqualified opinions. Inclusion of performance data enhanced usefulness of financial report.

Pilot Project
Agency Financial Statements/Audits

Agency	Entity Covered	Financial Statements	Audit Reports	OMB Comments
Department of Health and Human Services	Social Security Administration (required by the CFOs Act)	All principal statements except the Statement of Reconciliation to Budget Report (this information was included in a footnote).	Audit opinion qualified because of the uncertainty about revenue credited provisionally to the SSA trust funds and the inability to determine the reasonableness of the net book value of accounts receivable and equipment. Internal control deficiencies noted in the design and operation of the accounting system. Complied in all material respects with laws and regulations.	Inclusion of performance data enhanced usefulness of the financial statement. The Department has declared FMFIA material non-conformances in the debt management and personal property areas.
Department of Agriculture	Agency-wide	All required principal statements. Combining statements presented to expand on the information in the principal statements.	Waiver issued by OMB for audit of FY 1990 financial statement.	Consolidated financial information includes related government corporations.
Department of Veterans Affairs	Agency-wide	Consolidated Statements of Financial Position and Operations. Statements of Changes in Financial Position and Reconciliation to Budget presented as a single consolidated statement. Supplemental schedules provide data to support consolidated statements, including a comparison of budget and actual outlays by function and program.	Waiver issued by OMB for audit of FY 1990 financial statement.	Annual Financial Statements are contained as a supplement to the Annual Report of the Secretary of Veterans Affairs.

2. Government Corporations

The CFOs Act imposes a series of requirements on government corporations by amending the Government Corporation Control Act, which covers 33 corporations. (The CFOs Act does not cover another 24 government corporations because their enabling legislation exempts them from the Government Corporation Control Act. These corporations are generally private, for-profit entities, such as the Consolidated Rail Corporation, and corporations that comprise the Farm Credit System.)

The CFOs Act requires that government corporations "submit an annual management report to the Congress not later than 180 days after the end of the Government corporation's fiscal year." The Act specifies that the management report must include the following parts:

— The corporation's annual audited financial statement;

— A statement on internal accounting and administrative control systems by the head of the management of the corporation, consistent with agency statements under FMFIA; and

— Any other comments and information necessary to inform the Congress about the operations and financial condition of the corporation.

The Act further requires corporations to "provide the President, the Director of the Office of Management and Budget, and the Comptroller General of the United States a copy of the management report when it is submitted to Congress." OMB must, in turn, include, in its financial management status report, a summary of the most recently completed financial statements and corresponding audits for government corporations.

Pursuant to these requirements, on August 19, 1991, OMB advised the corporations covered by the Act of their responsibility to produce and distribute a management report including the statutorily-required information. On November 1, 1991, OMB contacted each corporation to request, among other things, copies of their most recently completed financial statements and audit reports on the financial statements, in order to prepare the summary required to be included in this submission.

To date, OMB has received financial statements and unqualified audit reports from 27 of the 33 corporations. OMB has received disclaimers of opinion indicating that the most recent financial statements of three of the 33 government corporations (the Pension Benefit Guaranty Corporation, the Federal Housing Administration, and the Resolution Trust Corporation) were unauditable. With respect to the remaining three government corporations:

— OMB has not received an audited financial statement from the Inter-American Foundation;

— No audit was conducted of the Pennsylvania Avenue Development Corporation's 1989 and 1990 financial statements; and

— For the Federal Deposit Insurance Corporation, audits were conducted of the 1989 and 1990 financial statements of three funds. The auditor issued a disclaimer of opinion on the financial statements of the FSLIC Resolution Fund. The audit reports on the Savings Association Insurance Fund and the Bank Insurance Fund indicate that, without a substantial infusion of resources, these funds will not have monies to resolve problem institutions promptly and effectively.

The table at the end of this section presents a summary of these statements and audits.

The table also indicates that the 1990 fiscal years for 16 of these corporations ended before the CFOs Act was signed into law (on November 15, 1990). Thus, OMB does not consider that these corporations were required to produce the statutorily-mandated management reports for 1990. In contrast, the 17 corporations whose fiscal years ended after November 15, 1990 should have submitted management reports for 1990. To date, OMB has received a 1990 management report from only one of these corporations, the Saint Lawrence Seaway Development Corporation.

To date, OMB has received a submission on 1991 activity from only one government corporation, the Tennessee Valley Authority. The submission meets all of the statutory requirements for government corporation management reports.

As indicated in Section B.5 of the 5-year plan (Internal Controls), in 1992 OMB will follow up with the corporations to urge their full compliance with the CFOs Act.

Government Corporation Financial Statements/Audits

Government Corporation	Year End	Audit Reports
Amtrak	9/30/90	Unqualified opinion. No internal control or compliance report rendered.
Bonneville Power	9/30/90	Unqualified opinion. No internal control weaknesses reported. Pending litigation relating to the allocation of certain costs among nuclear projects may have a significant impact on the entity and result in a potential instance of noncompliance.
Commodity Credit Corporation	9/30/89	Unqualified opinion. No internal control weaknesses reported. Compliance exception reported in regard to the use of appropriated funds. FY 1989 was latest audit received.
Export-Import Bank	9/30/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Crop Insurance Corporation	9/30/90	Unqualified opinion. However, the auditor reported the need for significant changes in insurance program operations. Without change, the corporation will continue to suffer significant losses and require additional government funding. Internal control weaknesses reported. No instances of noncompliance reported.
Federal Deposit Insurance Corporation:		
FSLIC Resolution Fund	12/31/90	Audits were made of three funds of the FDIC: the FSLIC Resolution Fund, the Bank Insurance Fund, and the Savings Association Insurance Fund, for 1990.
Bank Insurance Fund	12/31/90	
Savings Association Insurance Fund	12/31/90	
		The auditors disclaimed an opinion on the Resolution Fund because they could not assess the reasonableness of the Fund's estimated liability for assisted institutions and estimated recoveries from sale of its receivership and corporated owned assets.
		The auditors reported that the Bank Insurance Fund and the Savings Association Insurance Fund will not have sufficient monies available to resolve problem institutions promptly and effectively without a substantial infusion of funds to cover working capital needs and losses.
Federal Financing Bank	9/30/90	Unqualified opinion. Internal control weaknesses reported. No instances of noncompliance reported.
Federal Home Loan Bank Combined Report.	12/31/90	Unqualified opinion. Reports on internal control and compliance issued on individual banks.
Federal Home Loan Bank—Atlanta	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—Boston	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—Chicago	12/31/90	Unqualified opinion. No internal control weaknesses reported. Two violations of regulations and policies reported in regard to member advances and investment policies.
Federal Home Loan Bank—Cincinnati	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—Dallas	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.

Government Corporation Financial Statements/Audits

Government Corporation	Year End	Audit Reports
Federal Home Loan Bank—Des Moines.	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—Indianapolis.	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—New York.	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—Pittsburgh	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Federal Home Loan Bank—San Francisco.	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported. However, in order to meet minimum requirements for investment in Resolution Funding Corporation capital stock, other Federal Home Loan Banks have purchased capital stock of Resolution Funding Corporation on behalf of the San Francisco bank totaling $139M as of December 31, 1990. The San Francisco bank is required to set aside twenty percent of its future quarterly net income before dividends in a repayment reserve until the shortfall has been eliminated.
Federal Home Loan Bank—Seattle.....	12/31/90	Unqualified opinion. No internal control weaknesses reported. One violation of investment policy reported.
Federal Housing Administration	9/30/90	No opinion expressed. Accounting records did not provide sufficient evidence to support property sales transactions and property inventory. The auditors questioned the Mutual Mortgage Insurance Fund's ability to survive an economic downturn, given its present economic net worth and the magnitude of additional losses that could be sustained by the General Insurance Fund. The auditors reported internal control weaknesses and instances of noncompliance.
Federal Prison Industries.....	9/30/90	Unqualified opinion. Internal control weaknesses reported. No instances of noncompliance reported.
Government National Mortgage Association.	9/30/90	Unqualified opinion. Internal control weaknesses reported. No instances of noncompliance reported.
Inter-American Foundation.....	9/30	No audit report received by OMB.
NCUA Central Liquidity Fund.....	9/30/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Overseas Private Investment Corporation.	9/30/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Pennsylvania Avenue Development Corporation.	9/30	Audits not conducted for FY89 and 90.
Pension Benefit Guaranty Corporation	9/30/90	No opinion expressed. Estimated liability for guaranteed benefits was unauditable. Internal control weaknesses reported.
Resolution Funding Corporation	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.

Government Corporation Financial Statements/Audits

Government Corporation	Year End	Audit Reports
Resolution Trust Corporation	12/31/90	No opinion expressed due to internal control weaknesses and significant uncertainties about the recovery values of troubled real estate assets. No instances of noncompliance reported.
Rural Electrification Administration	9/30/90	Unqualified opinion. Internal control weaknesses reported. No instances of noncompliance reported.
Saint Lawrence Seaway Development Corporation.	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.
Tennessee Valley Authority.....	9/30/91	Unqualified opinion. No internal control weaknesses reported. Compliance exception reported with respect to regulatory improvements and approvals needed to resume and begin operations of certain facilities.
The Financing Corporation.....	12/31/90	Unqualified opinion. No internal control weaknesses or instances of noncompliance reported.

C. SUMMARY OF REPORTS ON INTERNAL CONTROLS SUBMITTED TO THE PRESIDENT AND THE CONGRESS UNDER THE FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

The tables below summarize reports submitted in December 1991 by the 23 CFOs Act agencies to the President and Congress pursuant to FMFIA. FMFIA requires that agencies report on their compliance with applicable standards for internal controls (under Section 2) and for financial management systems (under Section 4).

As noted in Section A.5 of the status report (Internal Controls), OMB and the agencies have concerns about the consistency and quality of this information government-wide. The 1991 FMFIA reports indicate the existence of rigorous internal control programs in some agencies, and apparently cavalier efforts in others. For example, agency reporting of material weaknesses is inconsistent, with some large agencies reporting no material weaknesses, while others report what seem to be relatively minor deficiencies. Further, it is apparent that additional guidance to agencies on the criteria for reporting overall compliance with FMFIA is necessary to assure a more uniform and consistent government-wide approach. Section B.5 of the 5-year plan (Internal Controls) discusses OMB's plans to encourage agency improvements in this area.

1. Internal Control Systems (Section 2)

Highlights of the 1991 reports on internal control systems are as follows:

- Three agencies (Agriculture, Education, and Housing and Urban Development) report that they are not in overall compliance with standards for internal control.
- The 23 CFOs Act agencies report a total of 430 pending material weaknesses in internal controls, weaknesses which are deemed significant enough to be of interest to the President and the Congress.
- Of these 430 weaknesses, the majority (54 percent) are in program management. Other categories of material weaknesses include: property/inventory management (11 percent of total); procurement (8 percent); payment systems/cash management (7 percent); grant management (5 percent); ADP security (5 percent); personnel (4 percent); loan management/debt collection (3 percent); and other functional areas (4 percent).

Section 2 of Agency FMFIA Reports: Compliance and Number of Material Weaknesses

	Overall Compliance	Number of Material Weaknesses				
		Reported In:		Corrected In:		Total Pending
		Prior Years	1991	Prior Years	1991	
USDA	No	815	13	790	0	38
Commerce	Yes [1]	35	2	29	0	8
DOD	Yes	541	46	494	13	80
Education	No	61	6	49	1	17
DOE	Yes	19	4	8	0	15
HHS	Yes	313	11	266	12	46
HUD	No	101	11	62	28	22
DOI	Yes [2]	138	16	102	5	47
DOJ	Yes	30	6	16	1	19
DOL	Yes	49	1	36	0	14
State	Yes [3]	29	1	12	2	16
DOT	Yes	130	9	109	9	21
Treasury	Yes	389	10	375	6	18
VA	Yes	44	3	23	9	15
EPA	Yes	27	7	17	1	16
NASA	Yes [4]	30	2	25	2	5
AID	Yes	20	2	13	0	9
FEMA	Yes	6	0	6	0	0
GSA	Yes	30	0	29	0	1
NRC	Yes	1	0	1	0	0
NSF	Yes	15	4	13	2	4
OPM	Yes	14	4	8	4	6
SBA	Yes	98	2	69	16	13
Total	3 No 20 Yes	2,935	153	2,552	111	430

[1] Commerce reports compliance with the exception of the material weaknesses identified in the report.

[2] Interior reports compliance except for the Bureau of Indian Affairs, the National Park Service, and the Office of Territorial and Insular Affairs.

[3] State provides qualified assurance that the Department complies with Section 2.

[4] NASA reports compliance with the exception of the material weaknesses identified in the report.

NOTE: This table accurately reflects what agencies reported. OMB, however, has reservations about the reliability of a number of these agency reports.

Section 2 of Agency FMFIA Reports: Pending Material Weaknesses by Functional Area

	Total Number Pending	Number of Pending Material Weaknesses by Functional Area								
		Program Management	Procurement	Grant Management	Personnel	ADP Security	Payment Systems/ Cash Management	Loan Management/ Debt Collection	Property/ Inventory Management	Other
USDA	38	38	0	0	0	0	0	0	0	0
Commerce	8	6	0	0	0	1	0	0	1	0
DOD	80	8	15	0	7	8	13	0	29	0
Education	17	8	1	2	0	0	0	1	2	3
DOE	15	7	2	0	1	0	0	0	0	5
HHS	46	17	6	12	2	2	1	2	2	2
HUD	22	13	0	2	0	0	2	4	1	0
DOI	47	34	3	2	0	3	1	2	2	0
DOJ	19	12	3	0	2	1	0	1	0	0
DOL	14	13	0	0	0	0	1	0	0	0
State	16	5	1	0	1	0	6	0	3	0
DOT	21	15	0	1	1	0	1	1	2	0
Treasury	18	12	0	0	1	2	1	0	2	0
VA	15	11	0	0	0	1	2	0	0	1
EPA	16	13	0	1	0	0	0	0	2	0
NASA	5	0	1	0	0	1	0	0	0	3
AID	9	4	0	0	1	1	2	0	0	1
FEMA	0	0	0	0	0	0	0	0	0	0
GSA	1	1	0	0	0	0	0	0	0	0
NRC	0	0	0	0	0	0	0	0	0	0
NSF	4	1	0	2	0	0	0	0	0	1
OPM	6	4	0	0	1	0	0	1	0	0
SBA	13	9	1	0	1	0	0	2	0	0
Total	430	231	33	22	18	20	30	14	46	16

2. Financial Management Systems (Section 4)

Highlights of the 1991 reports on financial management systems are as follows:

— Eight agencies report that they are not in overall compliance with Section 4. Specifically, seven agencies report they do not comply with financial information standards, and eight report they do not comply with systems functional standards. It should be noted that several of the agencies' 1991 reports on Section 4 compliance appear inconsistent with the data provided by those agencies in response to OMB's data request for this submission. OMB intends to resolve these apparent inconsistencies by May 1992.

— The 23 agencies report a total of 225 pending instances of material non-conformance with government-wide financial information standards and systems functional standards.

The pending instances of non-conformance are reported in seven categories relating to financial information standards and systems functional standards. (A single non-conformance may be of more than one type.) The most frequently-reported problem is with data quality (16 agencies report this type of non-conformance). Other types of non-conformances involve problems with: effective interfaces (reported by 14 agencies); documentation/audit trails (11); primary financial systems (9); compliance with the Standard General Ledger (8); mission performance (8); and cost accounting (7).

Section 4 of Agency FMFIA Reports: Compliance and Number of Material Non-Conformances

	Compliance			Number of Material Non-Conformances				
	Overall	Financial Information Standards	Systems Functional Standards	Reported In:		Corrected In:		Total Number Pending
				Prior Years	1991	Prior Years	1991	
USDA	No	No	No	76	0	64	0	12
Commerce	No	No	No	[1] N/A	—	—	—	1
DOD	Yes	Yes	Yes	[2] N/A	—	—	—	29
Education	No	No	No	94	1	86	0	9
DOE	Yes	Yes	Yes	2	0	2	0	0
HHS	Yes	Yes	Yes	9	[illegible]	5	2	[illegible]
HUD	No	No	No	[3] 3	65	0	0	[illegible]
DOI	No	Yes	No	39	4	32	0	11
DOJ	Yes	Yes	Yes	35	0	29	1	5
DOL	Yes	Yes	Yes	97	0	88	0	9
State	No	No	No	57	0	15	10	32
DOT	Yes	Yes	Yes	57	1	49	3	6
Treasury	Yes [4]	Yes	Yes	436	7	406	13	24
VA	Yes	Yes	Yes	26	0	18	0	8
EPA	Yes	Yes	Yes	18	0	12	1	5
NASA	Yes [5]	Yes	Yes	2	0	1	0	1
AID	No	No	No	2	0	1	0	1
FEMA	No	No	No	2	0	0	0	2
GSA	Yes	Yes	Yes	7	0	7	0	0
NRC	Yes	Yes	Yes	0	0	0	0	0
NSF	Yes	Yes	Yes	0	0	0	0	0
OPM	Yes	Yes	Yes	4	0	1	2	1
SBA	Yes	Yes	Yes	11	0	11	0	0
Total	8 No 15 Yes	7 No 16 Yes	8 No 15 Yes	977	80	827	32	225

[1] Commerce's FMFIA Report omits these data because the previously-reported non-conformances "all relate to and will be rectified by correction of the Department-wide non-conformance."

[2] Data previously reported under this heading are no longer comparable, due to implementation of a new method for categorizing and reporting administrative support systems and related non-conformances.

[3] HUD previously reported material non-conformances in 3 types of systems rather than in its 65 separate systems.

[4] Treasury provides qualified assurance that the U.S. Customs Service is in compliance with Section 4.

[5] NASA reports compliance with the exception of the material non-conformances noted in the report.

Section 4 of Agency FMFIA Reports: Pending Material Non-Conformances by Type

	Total Number Pending	Pending Material Non-Conformances by Type						
		Financial Information Standards		Systems Functional Standards				
		Compliance w/Standard General Ledger	Data Quality	Primary Financial System	Effective Interface	Cost Accounting	Documentation/Audit Trails	Mission Performance
USDA	12	Yes	Yes	—	Yes	—	Yes	Yes
Commerce	1	—	Yes	Yes	Yes	Yes	Yes	Yes
DOD	29	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Education	9	—	Yes	—	Yes	—	Yes	—
DOE	0	—	—	—	—	—	—	—
HHS	4	—	Yes	—	Yes	—	—	Yes
HUD	65	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DOI	11	Yes	Yes	Yes	Yes	Yes	Yes	—
DOJ	5	—	Yes	—	—	—	—	—
DOL	9	—	Yes	Yes	Yes	—	Yes	—
State	32	Yes	Yes	Yes	Yes	Yes	Yes	Yes
DOT	6	Yes	Yes	Yes	Yes	—	—	—
Treasury	24	—	Yes	Yes	Yes	Yes	Yes	Yes
VA	8	—	Yes	—	Yes	Yes	Yes	Yes
EPA	5	—	Yes	—	Yes	—	—	—
NASA	1	—	Yes	—	—	—	—	—
AID	1	Yes	—	Yes	—	—	Yes	—
FEMA	2	Yes	—	—	Yes	—	—	—
GSA	0	—	—	—	—	—	—	—
NRC	0	—	—	—	—	—	—	—
NSF	0	—	—	—	—	—	—	—
OPM	1	—	Yes	—	—	—	—	—
SBA	0	—	—	—	—	—	—	—
Total	225	8 Yes	16 Yes	9 Yes	14 Yes	7 Yes	11 Yes	8 Yes

III. GOVERNMENT-WIDE 5-YEAR FINANCIAL MANAGEMENT PLAN

This government-wide 5-year financial management plan sets out steps to improve Federal financial management and, as a result, the accountability, efficiency, and effectiveness of the Federal Government.

The discussion of the plan begins with a statement of strategy and then is organized in the same manner as the financial management status report. It presents specific plans in each of the eight critical areas of financial management performance.

Under Section 301 of the CFOs Act, 5-year financial management plans must contain specified information. The statutory requirements are met in this 5-year plan as follows:

Statutory Requirement	5-Year Plan Section
Financial management structure: description of current structure and changes needed	Section B.1, Plans for Financial Management Organization
Financial management personnel: identification of needs and actions to meet needs	Section B.2, Plans for Financial Management Personnel
Financial systems: strategy for integrating agency systems to provide adequate, consistent, and timely information	Section B.4, Plans for Financial Systems
Financial systems: proposals to eliminate duplicative and unnecessary systems	Section B.4, Plans for Financial Systems
Financial systems: projects to bring systems into compliance with applicable standards and requirements	Section B.4, Plans for Financial Systems
Audited financial statements: plan for implementing CFOs Act provisions	Section B.8, Plans for Audited Financial Reporting
Equipment acquisitions and other necessary actions: milestones for implementation of the 5-year plan	Section C, Milestones for Implementation of the 5-Year Plan
Implementation costs of the 5-year plan	Section D, Implementation Costs of the 5-Year Plan

A. STRATEGY

OMB's overall strategy for achieving financial management improvements has five parts:

(1) ***Integrated Approach to Planning and Reporting.*** As noted in Part I, OMB will take an integrated approach to Federal financial management planning and reporting. This 5-year plan presents a general road map. OMB will instruct agencies to (i) develop detailed agency 5-year plans based on this road map, and (ii) present, in their CFO annual reports, the status of agency financial management in relation to these plans.

The data in the CFO annual reports will serve as a principal input to OMB's January 1998 financial management status report and government-wide 5-year financial management plan. This cycle will continue in subsequent years, when institutionalization of the cycle will enable both streamlining of the process and refinement of the targets and data.

(2) ***OMB Role.*** OMB will play three principal roles in ensuring implementation of the 5-year plan:

(a) OMB will keep the attention of agencies focused on the importance of "top down" direction and support for the financial management function.

(b) OMB will collaborate with a number of organizations in the design and execution of programs to improve Federal financial management (through, for example, definition of requirements for accounting systems; preparation of guidance on form and content of financial reporting; and definition of corresponding audit scope).

OMB's colleagues in these endeavors will include: agency CFOs, the Department of the Treasury, GAO, FASAB, and the JFMIP.

(c) OMB will carry out "hands on" implementation review and followup functions, to assist agencies in getting needed changes made.

(3) ***Availability of Financial Reporting as part of the Budget and Appropriations Process.*** OMB and the agencies will move aggressively to make financial and program information for the year preceding the Budget Year available to the budget and appropriations processes. Starting with selected agencies, the goal will be to make prior year audited financial statements part of the appropriations process. A very few agencies (e.g., the Social Security Administration) will be able to do this in 1992 with respect to FY 1991. Some additional programs or agencies should be able to do this in 1993 with respect to FY 1992. It is our goal that all agencies and programs covered by the CFOs Act should be in a position to do this by the end of FY 1994.

(4) ***Simultaneous Progress in Eight Areas of Financial Management.*** OMB will expect steady progress in each of the eight critical areas of financial management performance. OMB recognizes that, in an ideal world, many of these areas would be attacked sequentially. However, OMB believes that the Federal Government cannot tolerate the extended timeframes for improving financial management implied by a sequential approach.

While action will proceed simultaneously in all eight areas, OMB will place special emphasis—during the early years of plan implementation—on instilling fiscal accountability within Federal agencies; ensuring adequate performance of basic finencial functions; making financial reporting timely, accurate and useful; and developing performance measures for program, financial, and financial management performance.

Government-wide goals will be established for basic indicia of fiscal accountability and financial management performance, and agency progress against the established goals will be routinely tracked and reported. Indicia under consideration include:

(a) Timely disbursement of funds, under Prompt Payment Act requirements;

(b) Management and collection of loans, accounts, and other receivables;

(c) Management and disposition of acquired real property and inventory;

(d) Implementation of the Standard General Ledger at the transaction level;

(e) Timely completion of critical reconciliations;

(f) Preparation and audit of required annual financial statements;

(g) Systematic and timely elimination of adverse audit findings;

(h) Systematic and timely elimination of internal control weaknesses reported under FMFIA; and

(i) Development and systematic measurement of program, financial and financial management performance.

(5) ***Emphasis on Meeting Statutory Requirements.*** OMB will move aggressively to implement the requirements of the CFOs Act, and will use other available management tools (such as FMFIA reports, the High Risk List, and SWAT teams) as powerful reinforcers.

OMB's strategy is grounded in the following principles:

— The principal improvements must occur at the agency level.

— Clear and visible responsibility for improving financial management should be placed squarely on the shoulders of senior agency management, particularly agency heads and agency CFOs.

— In order to achieve specific performance objectives, agency management must (i) set priorities, and (ii) organize, manage, modify, and enhance its staff, its financial systems, and its internal controls in creative ways, for which it will be responsible.

— Agencies must report on the status of financial management through use of straightforward performance measures/standards that promote attention, praise, and/or corrective action by senior agency officials.

— Maximum progress will result if OMB and senior agency officials focus principal attention on the outcomes of financial management performance.

— Where resources for systems development are limited, agencies should first ensure that systems modifications support achievement of basic financial management performance objectives.

— Agency progress in achieving basic financial management performance objectives will be stimulated, to the extent possible, by interagency comparisons that note positive progress and are based on a common understanding of when "good" financial management is attained.

B. PLANS FOR IMPROVEMENT

This section details plans for improving Federal financial management performance in each of the eight areas. These plans (i) meet the requirements of the CFOs Act; (ii) build on the strengths and address the weaknesses discussed in the status report; and (iii) continue current initiatives, particularly those undertaken as part of OMB's Five Point Program for Financial Management.

1. Plans for Financial Management Organization

As indicated in Part II of this report, the effectiveness of agency CFO organizations, the Office of Federal Financial Management, and the CFO Council remain to be seen. Additionally, OMB needs to find ways to increase agency program managers' attention to, and appreciation of, the financial management function.

CFO Organizations in the Agencies. Twenty-one of the 23 CFOs Act agencies now have approved CFO organizational structures. OMB expects to approve the CFO organizational structures of the remaining two agencies by May 1992.

Over the next months, agency CFOs must ensure that their agencies issue all directives and orders needed to implement the approved structures. While implementing directives and orders are a necessary condition for bureaucratic change, directives and orders are not likely of themselves to bring about change. Thus, in conjunction with the CFO Council, OMB intends in 1992 to implement a continuing, "hands on" program of CFO functional analyses. These functional analyses will compare the goals and objectives of the ideal CFO organization with the performance of actual CFO organizations (assessed through on-site reviews led by OMB staff).

Over the course of the next several years, OMB believes that the CFO functional analyses will enable informed judgments on several highly debated issues relating to CFO organizations. These issues include:

- Should the CFO organization be narrowly focused on financial management, or should the CFO have broader jurisdiction (in areas, for instance, such as procurement and personnel), in order to have the "clout" to accomplish key financial management improvements?
- How necessary is it to an effective CFO organization for the CFO to have line (as opposed to staff) financial management responsibilities?
- In highly decentralized departments and agencies, does the CFO need line authority over component financial management functions in order to have sufficient influence over their activities? If not line authority, what authority?
- What specific authorities and/or linkages should the CFO organization have in relation to program and policy offices?
- To what extent are the resources provided CFO organizations and OFFM adequate to the tasks assigned under the CFOs Act, in terms of quality as well as quantity?

Developing informed answers to these types of questions will be critical to OMB's ability to meet its CFOs Act responsibility to "oversee, periodically review, and make recommendations to heads of agencies on the administrative structure of agencies with respect to their financial management activities."

Office of Federal Financial Management. The President's 1992 Budget proposed that staffing for OMB's OFFM and OMB's General Management Division be increased by a total of 21 positions, to enable these units to meet their expanded responsibilities under the CFOs Act. The Congress, however, reduced OMB's FY 1992 budget request by $1.5 million, and only four additional positions were made available for OFFM.

The President's 1993 Budget proposes an additional staffing increase of six positions for OFFM, reflecting a "bare bones" approach to meeting OMB's statutory responsibilities under the CFOs Act. If the funding for these positions is not provided, it is possible that OMB's implementation of the CFOs Act may falter.

CFO Qualifications. In June 1991, OMB issued interim qualification standards for CFOs. The qualification standards require financial management experience and knowledge, but they also focus on the need for strong leadership and managerial abilities. The standards reflect OMB's

judgment that, to make Federal financial management effective, we must move it from the technical backwaters of agencies into the decision-making arena.

CFOs with strong leadership and managerial abilities, as well as "clout" within the agencies, are essential to achieving OMB's objectives. The challenge now is to ensure that the considerable abilities and influence of the CFOs in place are strongly directed toward improving Federal financial management. As a supplement to one-on-one policy interaction, OMB intends to use the CFO Council as a vehicle for achieving that end.

CFO Council. The CFO Council will (i) be chaired by OMB's Deputy Director for Management, (ii) be comprised of CFOs, (iii) meet at least quarterly, (iv) address major financial management policy issues, and (v) provide policy direction to a Council Operations Group.

The Council Operations Group will be chaired by the Controller, OFFM, and comprise principally Deputy CFOs. The focus of this Group, which will meet at least six times a year, will be on operational aspects of Federal financial management.

Program Managers' Appreciation of Financial Management. It is critical to increase the importance placed on financial management among the agencies' senior and program management personnel. Absent an appreciation for financial management and how it can help these individuals fulfill their responsibilities, most agencies put financial management on a "back burner." The JFMIP has recently conducted a program to identify approaches to increasing agency appreciation for, and use of, good financial management. OMB will review the results of the program in April 1992, and initiate discussions with selected program managers in June 1992.

2. Plans for Financial Management Personnel

The status report component of this submission notes that a wide variety of efforts have been undertaken to strengthen Federal financial management personnel.

Over the past several years, a blue-ribbon panel of the Association of Government Accountants has extensively studied this problem and ways to remedy it. The panel's findings and recommendations are presented in "A Blueprint for Attracting and Retaining Financial Management Personnel," which is scheduled for publication in early 1992.

During the period covered by this 5-year plan, OMB will evaluate the "Blueprint" report and, if appropriate, collaborate with the Office of Personnel Management and the agencies in organizing a program to implement its recommendations. The principal AGA recommendations fall into five categories: recognition and appreciation, type of personnel, recruiting, training, and turnover.

- ***Recognition and Appreciation.*** As noted in the preceding section, the Federal Government needs to develop mutual recognition of/appreciation for program and financial management roles in agency financial management. This is the essential first step in improving the image and performance of financial management personnel.

- ***Type of Personnel.*** The Federal Government needs to ensure that agencies are able to identify their financial management personnel needs.

- ***Recruiting.*** The Federal Government needs a coordinated approach to identifying appropriate financial management talent early, making Federal employment attractive to those individuals, and further simplifying the process for bringing them on-board.

— ***Training.*** The Federal Government needs consistent, quality training to ensure that existing and new financial management personnel at a minimum know the fundamentals of Federal accounting and financial reporting.

— ***Turnover.*** The Federal Government needs to identify the amount of turnover among financial management personnel and the reasons for that turnover, and then take steps to reduce turnover, as appropriate.

To implement improvements in these areas, OMB is considering adoption of the approach suggested in the AGA "Blueprint." That is:

— An Implementation Monitoring Committee would be established with representation from OFFM, the CFO Council Operations Group, and the Office of Personnel Management.

— Membership on the Committee would also include a representative from each agency or organization having responsibility for implementing one or more of the "Blueprint" recommendations.

— The Committee would meet periodically and review the implementation status of each of the "Blueprint" recommendations. Committee members would be expected to identify any delays in implementing recommendations for which their organizations are responsible, report the delays back to their organizations, and take steps to overcome the delays.

3. Plans for Accounting Standards

The status report component of this submission discusses the progress made by FASAB in meeting its goal of recommending generally accepted accounting standards for the Federal Government. Over the next five years, FASAB will recommend a comprehensive set of accounting standards for approval by the Secretary of the Treasury, the Director of OMB, and the Comptroller General, using the traditional, open process that encourages broad, public participation.

FASAB Activities in 1992 and 1993. FASAB's agenda for 1992 and 1993 includes the following:

— A public hearing on the exposure draft issued in November 1991 for nine standards involving financial resources and funded liabilities;

— Issuance of two more exposure drafts on accounting for inventories and other materials held by government entities, and accounting for loans and loan guarantees (consistent with credit reform);

— Issuance of exposure drafts relating to user needs and unfunded liabilities. In the area of unfunded liabilities, individual exposure drafts are anticipated on such matters as pensions, post-employment benefits, claims and judgments, entitlements, and commitments (such as nuclear waste cleanup). Final recommendations on these items will be forthcoming in 1992 and 1993; and

— Issuance of exposure drafts on revenue recognition and physical assets. In the area of physical assets, exposure drafts are being considered on such issues as military hardware, space equipment, land, buildings, heritage assets, and natural resources. Work on these standards is anticipated into 1994.

The Board will also decide in 1992 whether to recommend standards to the three JFMIP Principals as they are completed, or consolidate the recommendations into a comprehensive report for issuance at a later date.

FASAB Plans in Later Years. At this time, FASAB's tentative agenda for 1994 and subsequent years includes: (i) continuing the issuance process for the exposure drafts discussed above; and (ii) undertaking standards development for investment expenditures in social programs; consolidating principles; disclosure; entity principles; and issues likely to emerge from the new focus on integrating accounting and budgeting.

Agency Responsibilities for Accounting Standards. Agencies must ensure that accounting standards are fully understood and complied with; and that a technical accounting research capability exists, sufficient to remain current with technical accounting developments and reasonably prepare the agency for implementing changes in standards on a timely basis.

4. Plans for Financial Systems

This section consists of three parts: plans for government-wide financial systems initiatives; plans for central financial systems; and plans for agency financial systems.

Plans for Government-Wide Financial Systems Initiatives. OMB's goal of integrated, government-wide financial systems requires establishing a government-wide financial systems information architecture that is consistent with central agency requirements; establishing government-wide financial systems functional standards; and eliminating duplicative and unnecessary systems through cross-servicing arrangements. Over the next 5 years, OMB will continue building on the progress that has been made in these areas.

— *Information Architecture.* The central management agencies will develop an architecture design that links their broad financial information needs with agency-specific financial information requirements, to ensure consistency in Federal financial reporting. Work on this information architecture design will commence in late 1992, in conjunction with efforts to establish an integrated central agency financial data base (see below).

— *Systems Functional Standards.* As noted in the status report, the JFMIP has several projects underway to strengthen government-wide systems functional standards. Two of these projects (establishing functional standards for seized assets systems and updating the Core Financial Systems Requirements) should be completed during 1992.

The JFMIP has made a long-term commitment to issuance of a comprehensive set of functional standards for Federal systems. Two current projects (establishing functional standards for inventory systems and credit systems) will be completed in 1993 or 1994. Also planned is the initiation of a project on acquired assets systems, following completion of the current project on seized assets systems.

— *Cross-Servicing Arrangements.* The movement toward elimination of duplicative and unnecessary systems through cross-servicing arrangements is continuing. In 1993, for instance, the Department of Agriculture will complete projects to provide full payroll servicing for the Departments of Justice and Treasury.

OMB intends, on a continuing basis, to expand cross-servicing opportunities through (i) collection and analysis of agency systems capabilities; (ii) designation of existing systems to meet common agency needs, whenever possible; and (iii) in cases where existing systems do

not meet common needs, designation of lead agencies to develop the applications and provide cross-servicing or software.

Plans for Central Agency Financial Systems. Integrated central agency systems are necessary to ensure adequacy, consistency, and timeliness of financial information for government-wide reporting. Central agency initiatives will focus on integrating central agency financial data bases and expanding central agency information standards.

— *Integration of Central Agency Financial Data Bases.* OMB's long-term goal is an efficient and shared OMB/Treasury data base that includes comprehensive financial and performance data. Automation of Standard Form 133 Budget Execution Reports in 1991 (through use of Treasury's ADEPT data base) represented a first step toward this goal.

In 1992 and 1993, OMB and Treasury will collaborate in using ADEPT as an integrated data base to meet short term requirements. Necessary enhancements include:

(i) Combining redundant required financial reports and providing for the information to be reported only once (electronically to ADEPT)—rather than separately to both OMB and Treasury; and

(ii) Potentially expanding the data base, to include information below the appropriation level and information on performance indicators.

The result will be an operational, integrated financial data base by 1994. During the same period, OMB and Treasury will undertake an information architecture study for the purpose of designing a fully efficient and comprehensive central data system for the long term.

— *Data Dictionary for Financial Information.* During 1992, OMB and Treasury will begin examining the definitions for financial management data elements developed by JFMIP in 1991, to ensure that they are sufficient for all pertinent functional requirements. The data elements will then be incorporated in the SGL and OMB/Treasury policy issuances, as appropriate; and a formal data dictionary will be prepared for government-wide distribution. The initial dictionary should be established and available to agencies by mid-1993. It will be updated periodically in subsequent years.

An agreed-upon data dictionary for program and financial information is critical to OMB's long-term goal of an integrated and comprehensive central agency data base. Therefore, over the next years, OMB will be working with the JFMIP and Treasury to address information standards needs beyond financial data definitions.

Plans for Agency Financial Systems. Progress in government-wide initiatives notwithstanding, there are serious questions about the performance of agency financial systems. OMB will address those questions through revising its government-wide financial systems policy; increasing the use of "off-the-shelf" software; and improving monitoring of agency progress.

— *Revision of Government-Wide Financial Systems Policy.* OMB Circular A-127, Financial Management Systems, establishes government-wide policies and procedures for developing, operating, evaluating and reporting on financial management systems. OMB will revise Circular A-127 in 1992 to deal with problems identified in GAO, Inspector General, and consultant reports. These include the need for:

(i) Each CFO to develop a vision of his/her financial systems objectives, consistent with the agency's overall vision, that gives priority to information needs within and outside the agency and provides directly and clearly for discrete systems projects;

(ii) Increased management control over financial systems development efforts, simplified processes before automating and integrating these efforts, and incremental improvements of manageable proportions;

(iii) Greater continuity in large systems development projects;

(iv) OMB approval of proposed changes in plans or funding levels based on the system's success or failure in meeting annual targets;

(v) Each CFO to report on financial systems project progress in a manner that enables evaluation by others of the progress being made, the costs being incurred, and the benefits being derived; and

(vi) Each CFO, within his/her financial systems plans, to give priority to correction of weaknesses reported under FMFIA.

While dealing with the problems listed above, the revised Circular A-127 will continue to emphasize consolidation of agency systems and elimination of functionally redundant systems.

— *Improvements in the "Off-the-Shelf" Software Program.* Starting in 1992 and on a continuing basis thereafter, OMB will work with the CFO Council Operations Group and with the Department of the Treasury and the General Services Administration to improve the "off-the-shelf" financial software program. Four types of improvements will be targeted: (i) acquisition of "off-the-shelf" software for additional operational areas; (ii) strengthened oversight of compliance with JFMIP guidelines; (iii) reduced purchase and installation timeframes for prepackaged software; and (iv) reduced agency support costs for prepackaged software.

— *Improved Monitoring of Agency Progress.* OMB will also strengthen its overall monitoring of agency financial systems performance through:

(i) Maintenance of a comprehensive inventory of agency financial systems, agency plans, and progress made against those plans;

(ii) Annual financial systems hearings with all CFOs Act agencies prior to formulation of the President's Budget; and

(iii) "Hands-on" reviews of financial systems planning and progress in implementation (in at least five agencies on an annual basis).

All agency financial systems planning and their related procedures are expected to be formulated, designed and implemented in accordance with accepted systems development standards. The design of adequate internal controls should take place during systems design, and agencies should be able to document how internal controls were in fact designed into the systems. When systems are finally implemented, they should be certified through audit and/or testing as having solid internal controls.

5. Plans for Internal Control

OMB believes Federal agencies are paying more attention to internal controls, and are making progress in identifying and correcting material weaknesses and high risk areas.

OMB has several initiatives underway or planned to provide more definitive information on the status of internal controls, and the effectiveness of agency corrective actions.

High Risk Program. OMB will continue to push, through the High Risk Program, for correction of the most serious material weaknesses identified in FMFIA reports. For those high risk areas where the pace of agency corrective actions needs to be accelerated, OMB will undertake additional SWAT or review team efforts in FY 1992. (Eighteen SWAT and review teams are already underway in FY 1992.)

Internal Control Policies. OMB Circular A-123, Internal Control Systems, establishes policy and procedures for agency implementation of FMFIA. In 1992, OMB will publish a proposed revision of this Circular for public comment. Publication of the final revision is also planned for 1992.

The Circular revision will serve several important purposes:

(i) Establishment of definitive standards to assist agencies in arriving at assurance statements that are comparable on a government-wide basis;

(ii) Institutionalization of practices that have been adopted by OMB and the agencies since 1989, such as increased involvement by senior policy officials in the internal control program and better linking of internal control and budget issues;

(iii) Clear extension of internal control policies to program operations as well as administrative functions; and

(iv) Simplified OMB guidance, as necessary, to make the internal control concept more understandable to program managers.

OMB will also reinforce the importance of FMFIA reporting on material weaknesses at the policy level. OMB will bring inadequate reporting to the attention of the agency head.

Audit Followup. OMB will propose revisions to Circular A-50, Audit Followup, in 1992. The Circular, originally issued in 1982, needs to be updated, to incorporate new requirements established in the Inspector General Act Amendments of 1988 and to strengthen agency audit followup practices.

Audits are a principal vehicle for identifying weaknesses in agency programs and operations. After management agrees to corrective actions, the audit followup process should track when corrective actions are taken and whether they result in substantive improvement. To identify opportunities for improving this process, GAO is currently doing audit work in this area, and will be issuing a report in early 1992. OMB will consider the report's recommendations in the revisions that are planned for Circular A-50.

Government Corporation Management Reports. The CFOs Act requires that government corporations prepare an annual management report which includes a statement on internal accounting and administrative control systems consistent with FMFIA.

In 1991, OMB received audited financial statements from 32 of the 33 government corporations covered by the Act. However, of the 17 corporations with 1990 fiscal years ending after the CFOs Act was signed into law, only one (the Saint Lawrence Seaway Development Corporation) submitted

the required management report, including the required statement on internal accounting and administrative control systems. In 1992, OMB will follow up with the corporations to urge their full compliance with the CFOs Act.

Audits of Agency Financial Statements. In 1991, OMB's Bulletin 91-14, Audit Requirements for Federal Financial Statements, expanded the auditor's coverage of internal controls well beyond traditional practice. Under this Bulletin, audit coverage includes the narrative part of the financial statement, as well as the supplemental financial and management information. The auditor is also directed to report on the entity's compliance with OMB guidelines for the FMFIA process, and disclose any discrepancies between the FMFIA report and the auditor's findings.

Agency preparation and audit of financial statements will expand considerably over the next two years, consistent with the schedule established in the CFOs Act. As more financial statement audits are conducted, there will be a corresponding increase in the amount of definitive information available on the status of Federal internal controls. As a means of further strengthening the internal control process, OMB will require that each CFO compare, in his/her annual report, the auditor's findings on internal controls with the FMFIA findings, and explain any discrepancies.

Finally, agency audits of performance information will be gradually expanded. Thus, by means of the financial reporting and audit processes, the Government will have an increasingly comprehensive double-check on the functioning of agency internal controls.

6. Plans for Asset Management

The Federal Government has made significant progress in its management of receivables and cash. There are, however, three major areas of concern. These involve: guaranteed loan management and non-tax debt collection; collection of tax debt; and management of other categories of assets (such as inventories, property, and equipment). This section addresses these three issues, and also presents initiatives planned to improve overall agency credit management and Federal cash management.

Guaranteed Loan Management and Non-Tax Debt Collection. As noted in the status report, terminations of guaranteed loans due to defaults have continued to rise, increasing from $11.9 billion in 1990 to $13.9 billion in 1991. In an effort to turn this situation around, OMB and the Department of the Treasury are currently working with the credit agencies to implement the requirements of OMB's 1990 Bulletin 91-05, Guidance for the Management of Guaranteed Loan Programs.

The Administration will, in addition, propose legislation to establish the Bulletin's requirements in law. The proposed legislation would, for example, mandate use of standard agreements with private sector lenders and collection of information on lender performance and the status of guaranteed loan portfolios.

The legislative proposal would also enhance overall Federal asset management by (i) barring debtors currently delinquent on Federal debts from obtaining additional Federal financial assistance; (ii) mandating use of the income tax refund offset for all delinquent debt, including delinquent corporate debt; (iii) simplifying the fee structure for late charges on delinquent loans; and (iv) providing the Justice Department with permanent authority to contract with private sector attorneys.

Collection of Tax Debt. As noted in the status report at the end of 1991, delinquent IRS accounts receivable stood at $67 billion, up 9.5 percent from 1990.

Over the next five years, the Administration will seek to improve collection of tax debt by focusing on two areas: (i) control of IRS accounts receivable; and (ii) streamlining and modernizing the payroll tax deposit system.

— *Control of IRS Accounts Receivable.* The IRS has developed an action plan to strengthen accounting for, and collection of, its accounts receivable. In 1992, the IRS will establish performance targets for management of accounts receivable and begin quarterly performance assessments. The IRS has committed to halting the growth of accounts receivable and boosting collections of delinquent taxes.

— *Streamlining and Modernizing the Payroll Tax System.* The payroll tax deposit reporting system yields annual payments of some $800 billion from more than 5 million businesses. The present system makes compliance expensive and frustrating. Efforts are underway to simplify and redesign this system through:

(i) A single wage reporting system that would eliminate the multiple filings currently required to comply with Federal and State tax systems; and

(ii) Simplified payroll tax deposit rules, including revenue-neutral changes to Treasury regulations.

In addition, in 1993 the Federal Tax Deposit Redesign Project will test electronic receipt, processing, and deposit of annual employer tax deposits. If this testing is successful, implementation will begin in 1994.

Management of Other Categories of Assets. As noted in the status report, the Federal Government lacks sufficient government-wide guidance with respect to management of its property, plant, and equipment. It also lacks such guidance with respect to inventories. Property, plant, and equipment assets are valued at $540 billion. Inventories are valued at $261 billion.

In 1992, the Administration will develop a long-term plan to improve government-wide management of these assets. The CFO Council has been tasked with identifying (i) improvements needed in management of Federal property, plant, equipment, and inventories; and (ii) mechanisms to bring those improvements about. In the meantime, several improvement projects are underway or planned:

— As noted in Section B.4 of this plan (Plans for Financial Systems), the JFMIP has initiated a project to establish systems functional requirements for inventories.

— The Department of the Treasury plans to develop inventory management standards in 1993.

— As detailed in Section B.3 of this plan (Plans for Accounting Standards), FASAB has a project underway to establish accounting standards for inventories and other materials held by government entities.

Improving Overall Credit Management by the Agencies. Over the period covered by this plan, the Administration will seek to enhance Federal agencies' capacity for credit management through (i) implementation of recommendations resulting from OMB's 1991 reviews of High Risk List credit programs in the Departments of Agriculture, Education, and Justice; and (ii) improvements in credit systems.

Necessary improvements to both direct and guaranteed loan operating systems will require major investments over the next five years. Strengthened systems are necessary to support program

operations (loan origination, loan servicing, lender monitoring, and delinquent debt collection), as well as to provide the information needed for credit reform implementation and audited financial statements. Initiatives underway to strengthen credit systems include the following:

- As noted in Section B.4 of this plan (Plans for Financial Systems), the JFMIP has undertaken a major project to establish functional standards for Federal credit programs such as systems requirements for credit reform accounting.

- In mid-1992, OMB will provide the Congress a report on the appropriate treatment of administrative costs under credit reform accounting. This report may have direct implications for agency credit systems.

- Finally, credit agencies have been in the forefront of the development of annual audited financial statements in the Federal Government.

  (i) Three major credit agencies—the Farmers Home Administration, the Federal Housing Administration, and the Department of Veterans Affairs—have prepared financial statements and had them audited at least once in the last three years.

  (ii) In accordance with the CFOs Act, these three organizations and the Small Business Administration will all have audited financial statements covering FY 1991 activity.

  (iii) The Department of Education's first audited financial statement on the guaranteed student loan program will cover FY 1992 activity.

Cash Management Improvements. OMB's long-term cash management goal is to convert, to the maximum extent possible, the Government's $2.6 trillion annual cash flow to a fully electronic collection and payment system. Current and planned initiatives to achieve this goal include the following:

- Federal and State Governments are developing and testing Electronic Benefit Transfer (EBT) payment mechanisms. EBT delivers Federal and State benefits electronically through plastic cards, automatic teller machines, and card scanning devices in grocery stores. EBT demonstrations are underway in Maryland, Pennsylvania, Minnesota, New Mexico, Iowa, and Wyoming; and planning has begun in an additional fifteen states.

- In 1991, the Department of Health and Human Services, the Department of Agriculture's Food and Nutrition Service, and the State of Maryland agreed to a State-wide program providing delivery of food stamps and Federally-funded/State-administered cash benefits through EBT. Full implementation of this program is scheduled for December 1992; evaluation of the results of this pilot in 1993 will determine whether further demonstrations will be undertaken.

Over the period of this 5-year plan, Federal cash management will also benefit from implementation of the Cash Management Improvement Act of 1990, and examination of Federal disbursement strategies and costs.

- The Department of the Treasury plans to publish, in 1992, proposed regulations for implementing the Cash Management Improvement Act of 1990. Implementation of the Act will significantly increase the equity and efficiency of the processes used by Federal agencies to make over $150 billion in payments to States each year.

— In 1992 and 1993, OMB will, in collaboration with the Department of the Treasury and the agency CFOs, examine in detail Federal disbursement strategies and costs for payments to States, vendors, employees, and beneficiaries.

7. Plans for Communication with Financial Officers of State and Local Governments, Private Contractors, and Grantees

Over the next twelve months, OMB plans significant revision of its policies regarding (i) audit requirements, (ii) cost principles, and (iii) administrative requirements. OMB is committed to a revision process that will involve extensive consultation with financial officers of State and local governments and representatives of private sector contractors and grantees. OMB also plans a formal public comment process through publication of proposed circulars in the *Federal Register.*

Audit Requirements. The audit requirements for State and local governments and private organizations administering Federal programs are contained in OMB Circulars A–128, Audits of State and Local Governments, and A–133, Audits of Institutions of Higher Education and Other Nonprofit Institutions. Audit requirements for all Federal contractors, including corporations, are contained in the Federal Acquisition Regulation, which requires the performance of transactional contract audits at various points during the acquisition process to ensure that prices paid are fair and reasonable.

Currently, Circular A–128, which was issued in 1985 to implement the Single Audit Act, is being evaluated by the PCIE and GAO. The PCIE study, which will identify problem areas in the audit process, is scheduled for completion in 1992. The GAO study, which will address the usefulness of the audit reports, is scheduled for completion in early 1993. OMB will carefully consider recommendations from the PCIE and GAO evaluations and make all necessary changes to the audit circulars. The results of these evaluations may also bear on audits required under Circular A–133.

To assist auditors conducting audits in compliance with these Circulars, OMB has published "Compliance Supplements," which specify the principal program requirements under which the major Federally funded programs are administered. These Compliance Supplements will be reviewed annually and updated as necessary.

Finally, the President's 1993 Budget requests funds to expand the activities of the Single Audit Clearinghouse, which is currently operated by the Bureau of the Census in the Department of Commerce. The Clearinghouse has been tracking issuance of State and local government single audits for many years; if the Congress appropriates the requested FY 1993 funding, the Clearinghouse will expand its role to include tracking of audits required by A–133. The Clearinghouse also proposes, with the requested FY 1993 funding, to initiate desk reviews of audit reports as they are received.

Cost Principles and Standards. Standards governing the allowability of charges to Federal programs administered by universities, State and local governments, and nonprofit organizations are contained in OMB Circulars A–21, Cost Principles for Educational Institutions; A–87, Cost Principles for State and Local Governments; and A-122, Cost Principles for Non-Profit Institutions, respectively. CASB establishes cost accounting standards to achieve uniformity and consistency in the cost accounting practices governing measurement, assignment, and allocation of costs to contracts with the Federal Government.

Circular A–21 was revised on October 1, 1991, to curb abuses in educational institution practices involving indirect costs in government-funded research. An OMB-chaired Task Force is currently

reassessing the Federal Government's policies and practices in awarding research grants and contracts to universities, including policies for funding overhead costs. The work of this Task Force is expected to be completed in 1992. In addition, CASB has agreed to develop appropriate cost accounting standards for application to Federal contracts with educational institutions. The Board is presently reviewing the public comments received in response to a Staff Discussion Paper on this topic.

Circulars A–87 and A–122 are also under review. OMB's goal is consistent allowability standards for charges to Federally-funded programs. Currently, the Circulars are not entirely consistent. Revision of Circulars A–21 and A–87 is expected in 1992; revision of Circular A–122 is anticipated in early 1993.

In the coming year, CASB intends to proceed with the regulatory promulgation process for agenda items on which action has already been initiated. High priority issues for future consideration include: (i) the perceived need for better criteria in distinguishing between "organizational changes" and "changes in cost accounting practices" to help determine whether a Government contractor is obliged to follow the procedures associated with changes in cost accounting practices; (ii) the treatment of post retirement benefits other than pensions for governmental contract costing purposes; and (iii) modifications to improve the quality of information presented in the CASB Disclosure Form.

Administrative Requirements. Circular A–102, Grants and Cooperative Agreements with State and Local Governments, and the associated common rule, specify government-wide administrative requirements for grants to State and local governments. A Task Force is currently studying the rule to determine if an update is necessary. Any required amendments to the common rule will be issued in 1992.

OMB Circular A–110, Grants and Agreements with Institutions of Higher Education, Hospitals, and Other Nonprofit Organizations, is also under review, and any necessary changes will be issued in 1992.

Parallel administrative requirements for Federal contractors are contained in the Federal Acquisition Regulation, which is updated as necessary through the rule-making process.

Cash Management. Federal cash management initiatives involving State Governments are discussed in Section B.6 (Plans for Asset Management).

8. Plans for Audited Financial Reporting

8a. Audited Financial Statements. The Executive branch has made progress in implementing the requirements of the CFOs Act pertaining to audited financial statements. Over the next years, OMB intends to build on this progress by (i) refining government-wide policy on preparation and audit of financial statements; (ii) increasing the completeness of financial and program performance information included in financial statements; (iii) monitoring and assisting agency efforts to obtain audited financial statements; and (iv) calculating the costs and benefits associated with audited financial statements.

Refining Government-Wide Policy on Preparation and Audit of Financial Statements. In the spring of 1992, an OMB-led CFO Council Task Force will complete comprehensive recommendations on "form and content" guidance for use by CFOs Act agencies in preparing their 1992 financial statements. During that same time period, another OMB-led group will complete the first phase of a project

to prescribe program performance measures for inclusion in 1992 financial statements, and, where practicable, in 1991 financial statements.

From 1993 through 1996, these Task Forces are expected to continue refining government-wide "form and content" guidance, including the incorporation of accounting standards recommended by FASAB and approved by the JFMIP principals.

Similarly, OMB will continue to work with representatives of the PCIE, GAO, and the American Institute of Certified Public Accountants to refine the government-wide policy embodied in OMB Bulletin 91–14, Audit Requirements for Federal Financial Statements. Issuance of the first expanded guidance in this area is scheduled for the summer of 1992.

In addition, in mid-1992, the PCIE Task Force on CFOs Act implementation will issue guidelines for the PCIE community on: (i) financial statement audit policy and methodology; (ii) contracting for financial statement audit support; (iii) determining the appropriate level of auditor assistance to management in financial statement preparation; (iv) financial statement audit reporting; and (v) the auditor's role with respect to management's overview of the reporting entity. Also in 1992, the PCIE Task Force will complete a curriculum and related materials for auditor training in financial statement auditing.

Increasing the Completeness of Financial and Program Performance Information. OMB has determined that total costs associated with program operations are not always appropriately allocated to the entities with which those costs are associated. Consequently, the presentation of the entities' financial activity in financial statements mandated by the CFOs Act is incomplete.

Over the next few years, OFFM intends to work with the agencies to ensure that financial statements include all costs associated with operations. This project will be a critical part of OMB's efforts to integrate the budget and accounting processes, and improve the quality of information provided to decision-makers. (Plans to improve program performance information are further discussed later in this section.)

Monitoring and Assisting Agency Efforts. Throughout the period covered by this plan, OMB will carry out an active quality assurance program with respect to agency audited financial statement activities. The program will be carried out at two levels:

— First, OMB will closely monitor the progress of CFOs and Inspectors General in preparing and auditing financial statements. The CFOs and Inspectors General have been asked to submit their plans for the preparation and audit of financial statements; and OMB has compared these plans with benchmarks developed by highly experienced CFOs and Inspectors General. OMB will now collaborate with the agencies, as necessary, to strengthen their plans.

— Second, OMB will review the issued audited financial statements to:

(i) Determine compliance with the requirements of the CFOs Act and OMB's government-wide guidance, including the adequacy and usefulness of the presentation of financial and performance information;

(ii) Assess the need for further actions to address financial and program performance problems; and

(iii) Assess the need for corrective actions to address material internal control weaknesses and/or instances of noncompliance with Federal laws and regulations.

Calculating the Costs and Benefits Associated with Audited Financial Statements. The CFOs Act Task Force of the PCIE is in the process of developing a strategy for calculating the costs and benefits associated with audited financial statements. After approval of the strategy by the PCIE and the CFO Council, these organizations will oversee collection of the corresponding cost and benefit data. OMB will use these data in preparing its "Report on Initial Financial Statements," which the CFOs Act requires be submitted to the Congress not later than June 30, 1993.

8b. Performance Information. OMB Bulletin 91–15, Guidance on Form and Content of Financial Statements on FY 1991 Financial Activity, directs agencies to include performance information in their annual financial statements. OMB plans a number of initiatives to assist agencies in meeting this challenge.

— In February 1992, OMB launched an interagency effort to help agencies select performance measures that will provide meaningful representations of the types and levels of agency performance and the results of such performance. This effort will result in lists of common performance measures as well as agency-specific performance measures. The bases for calculating each measure will also be developed.

— The February 1992 interagency effort included additional guidance for agencies on how to present financial and program performance information in their annual financial statements.

— OMB is beginning work on typologies of illustrative performance indicators and standards. The initial indicator typology, scheduled for completion in 1992, will show examples of common measures for common functions.

— OMB is also working with selected agencies to help them develop organization-wide indicators. The purpose of this project, which involves the Internal Revenue Service and the Social Security Administration, is to identify a select number of representative measures that will reflect overall performance and thus be useful to program managers, the Congress, and the public.

Ultimately, agency management must ensure that financial performance, financial management performance, and program performance information is provided, in order to: (i) target higher levels of accomplishment by the agency; (ii) strengthen management's ability to know how it is doing; (iii) create measures for shared accountability throughout the organization; and (iv) motivate personnel toward achieving improved performance.

Developing performance measures will be a tough job. But the difficulties inherent in that task are far outweighed by the difficulties agencies will face in incorporating the measures in their tracking systems, and then ensuring that quality data are reported through those systems.

C. MILESTONES FOR IMPLEMENTATION OF THE 5-YEAR PLAN

The CFOs Act requires that the government-wide financial management plan include "milestones for equipment acquisitions and other actions necessary to implement the 5-year plan."

The following chart presents milestones for all projects defined in this 5-year plan. However, OMB was not able to identify, in a comprehensive fashion, milestones for equipment acquisitions related to the plan. The reason is that such acquisitions principally relate to financial systems efforts, which are in turn often designed at the agency technology infrastructure level. Thus, documentation currently available often does not separately identify equipment milestones for the financial systems component of agency systems plans.

Milestones For Implementation of the 5-Year Plan

	1992	1993	1994	1995	1996
[1] Financial Management Organization:					
Implement CFO Functional Analysis Program	X	X	X	X	X
Increase OFFM staffing	X	X			
Approve Departments of Agriculture and Justice organization plans	X				
Issue agency implementing directives, orders	X				
Implement statutory CFO Council mechanisms	X				
Review JFMIP program on agency appreciation of financial management	X				
[2] Financial Management Personnel:					
Implement "Blueprint" recommendations	X	X	X	X	X
[3] Financial Accounting Standards:					
Develop FASAB standards on financial resources and funded liabilities	X				
Develop FASAB standards on inventory accounting		X			
Develop FASAB standards on loans and loan guarantees		X			
Develop FASAB statement on user needs and objectives		X			
Develop FASAB standards on unfunded liabilities		X	X		
Develop FASAB standards on physical assets		X	X		
Develop FASAB standards on revenue recognition		X	X		
Develop FASAB standards on social programs expenditures			X	X	
Develop FASAB standards on consolidating principles			X	X	
Develop FASAB standards on disclosures			X	X	
Develop FASAB standards on entity principles			X	X	
[4] Financial Systems:					
Establish information architecture for integrating financial systems	X	X	X	X	X
Develop JFMIP functional standards: seized assets	X				
Develop JFMIP functional standards: core systems update	X				
Complete cross-servicing: USDA-Justice personnel/payroll	X	X			
Complete cross-servicing: USDA-Treasury personnel/payroll	X	X			
Continue OMB expansion of cross-servicing policy	X	X	X	X	X
Enhance integrated data base using ADEPT	X	X			
Conduct OMB/Treasury study of central data architecture options	X	X			
Undertake OMB/Treasury/JFMIP systems data dictionary	X	X	X	X	X

Milestones For Implementation of the 5-Year Plan

	1992	1993	1994	1995	1996
Revise Circular A–127	X				
Identify performance goals/define tracking process	X				
Improve Off-the-Shelf software program	X	X	X	X	X
Establish/maintain financial systems inventory	X	X	X	X	X
Conduct financial systems hearings with CFOs Act agencies	X	X	X	X	X
Conduct financial systems reviews in 5 agencies	X	X	X	X	X
[5] Internal Control:					
Expedite problem corrections using High Risk Program	X	X	X	X	X
Revise Circular A–123	X				
Revise Circular A–50	X				
Improve government corporations' compliance with CFOs Act	X	X			
Expand internal control requirements for financial statements	X	X	X	X	
[6] Asset Management:					
Introduce legislation to enhance agency credit management	X				
Improve management of IRS accounts receivables	X	X	X	X	
Improve payroll tax deposit program and system	X	X	X	X	X
Develop long-term plan for managing inventories, property, plants and equipment	X				
Develop inventory management standards	X	X			
Implement High Risk corrective actions in USDA, Education, Justice	X	X	X		
Improve financial systems for credit programs	X	X	X	X	X
Report on and track administrative costs for credit reform	X	X	X	X	X
Test large-scale electronic benefit delivery systems	X	X	X		
Issue regulations for Cash Management Improvement Act	X				
Examine Federal disbursement strategies and costs	X	X			
[7] Communication With State/Local Governments and Private Contractors/Grantees:					
Complete PCIE study of Circular A–128 audit requirements	X				
Complete GAO study of usefulness of single audit reports		X			
Revise Circular A–128	X	X			
Annually update audit compliance supplements	X	X	X	X	X
Expand activities of Census' Single Audit Clearinghouse		X	X		
Revise Circular A–21	X				
Revise Circular A–87	X				
Revise Circular A–122		X			
Examine emerging high priority cost accounting issues	X	X	X	X	X
Update Circular A–102 common rule	X				
Revise Circular A–110	X				
[8] Audited Financial Reporting:					
Issue Form and Content guidance for financial statements	X	X	X	X	X
Continue revisions to form and content guidance		X	X	X	X
Revise audit guidance for financial statements	X	X	X	X	X
Develop PCIE guidelines on implementation of CFOs Act audit requirements	X				
Produce PCIE curriculum on auditor training	X	X			
Expand financial statement coverage	X	X			
Carry out quality assurance program for financial statements	X	X	X	X	X

Milestones For Implementation of the 5-Year Plan

	1992	1993	1994	1995	1996
Develop/implement strategy for calculating cost/benefits	X	X			
Conduct interagency project on key performance measures	X	X	X		
Prepare guidance on performance information in financial statements	X				
Produce initial typology of performance indicators	X				
Develop selected organization-wide performance indicators	X	X			

In addition, OMB has identified in the following table the "deliverables" or products associated with these milestones in FY 1992 and FY 1993. This table is derived from initiatives described in the 5-year plan and does not constitute a complete list of OMB deliverables for this time period.

Deliverables in FY 1992 and FY 1993

Q1: October, November, December
Q2: January, February, March
Q3: April, May, June
Q4: July, August, September

DELIVERABLES	FY 1992	FY 1993
Financial Management Organization:		
CFO Functional Analysis Reports	Q4	Q1–4
Approved USDA/Justice CFO Organization Plans	Q3	
Agency Implementing Directives, Orders	Q1–4	
Charter for Statutory CFO Council	Q2	
Financial Management Personnel:		
Implementation Monitoring Committee (Established)	Q4	
Financial Accounting Standards:		
FASAB Exposure Drafts on:		
Financial Resources and Funded Liabilities	Q1	
Inventory Accounting		Q2
Loans and Loan Guarantees		Q2
User Needs and Objectives		Q3
Unfunded Liabilities		Q3
Physical Assets		Q4
Revenue Recognition		Q4
Financial Systems:		
Information Architecture Design Project (Commenced)		Q1
JFMIP Functional Standards: Seized Assets	Q4	
JFMIP Functional Standards: Core Systems Update	Q4	
USDA-Justice Personnel/Payroll Cross Servicing		Q3
USDA-Treasury Personnel/Payroll Cross Servicing		Q3
Enhanced Integrated Data Base (using ADEPT)	Q3,4	Q1–4
Initial Data Dictionary for Financial Information		Q3,4
Revised OMB Circular A–127	Q4	
Improved Off-the-Shelf Software Program	Q3,4	Q1–4
Financial Systems Inventory	Q4	Q1–4

Deliverables in FY 1992 and FY 1993

Q1: October, November, December Q3: April, May, June
Q2: January, February, March Q4: July, August, September

DELIVERABLES	FY 1992	FY 1993
Financial Systems Hearings with CFOs Act Agencies	Q4	Q3,4
Financial Systems Reviews in 5 Agencies	Q3,4	Q1–4
Internal Control:		
Revised OMB Circular A–123	Q4	
Revised OMB Circular A–50	Q4	
OMB Followup with Government Corporations	Q2	
Expanded Internal Control Requirements for Financial Statements	Q1–4	
Asset Management:		
Legislation to Enhance Credit Management (Introduced)	Q3	
Improvement in Management of IRS Accounts Receivable	Q1–4	Q1–4
Improved Payroll Tax Deposit Program and System	Q1–4	Q1–4
Inventory Management Standards		Q1–4
High Risk Corrective Actions Implemented in USDA, Education, Justice	Q1–4	Q1–4
Report to Congress: Treatment of Administrative Costs under Credit Reform	Q3	
EBT Pilot in Maryland: Food Stamps/Cash Benefits	Q1–4	Q1
Issue Regulations for Cash Management Improvement Act	Q4	
Communication With State/Local Governments and Private Contractors/Grantees:		
PCIE Study of Circular A–128 Audit Requirements		Q1
GAO Study of Usefulness of Single Audit Reports		Q2
Revised Circular A–128		Q4
Updated Audit Compliance Supplements		Q1
Revised Circular A–21	Q4	
Revised Circular A–87	Q3	
Revised Circular A–122		Q2
Updated Circular A–102 Common Rule		Q1
Revised Circular A–110	Q4	
Audited Financial Reporting:		
CFO Task Force Recommendations on Form and Content Guidance	Q3	
Task Force Recommendations on Program Performance Measures for Financial Statements	Q3	
Revised Form and Content Guidance	Q4	
Expanded Guidance for Audits of Financial Statements	Q4	
PCIE Guidelines on Implementation of CFOs Act Audit Requirements	Q4	
PCIE Curriculum for Auditor Training		Q1
PCIE Strategy on Calculating Costs/Benefits		Q2
Report to Congress on Initial Financial Statements		Q3
Common and Agency-Specific Performance Measures	Q3	
Guidance on Including Performance Information in Financial Statements	Q2	
Initial Typology of Performance Indicators	Q4	
Organization-Wide Indicators for IRS, SSA		Q1

D. IMPLEMENTATION COSTS OF THE 5-YEAR PLAN

Section 3512 of the CFOs Act requires that the 5-year plan "estimate the costs of implementing the government-wide five-year plan."

Implementation costs for the plan presented herein are not fully known at this time, since the CFOs Act agencies have not yet developed their individual implementation plans, including estimates of cost, based on OMB's government-wide plan.

As an interim measure, the President's 1993 Budget specifies funding for CFOs Act implementation in the following three functional areas:

- ***Improved Financial Reporting:*** establishing accounting and reporting standards, preparing financial statements, and auditing financial statements;
- ***Improved Financial Systems:*** establishing or improving financial information functional standards, improving individual agency financial systems, and upgrading the central systems; and
- ***Improved Asset Management:*** credit management and non-tax debt collection, tax-related debt collection, and cash management.

The table below summarizes funds requested in the President's 1993 Budget for these activities.

INVESTMENTS IN FINANCIAL MANAGEMENT

(Budget authority in millions of dollars)

	1992 Enacted	1993 Proposed	Change 1992–1993
Improved Financial Reporting	57	101	+44
Improved Financial Systems	628	659	+31
Improved Asset Management	1,437	1,445	+8
Total Budget Authority	2,122	2,205	+83

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